



ROGERS COUNTY

Financial Report

For the fiscal year ended June 30, 2019

Cindy Byrd, CPA
State Auditor & Inspector

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

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Cindy Byrd, CPA | State Auditor & Inspector

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

January 8, 2021

TO THE CITIZENS OF
ROGERS COUNTY, OKLAHOMA

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

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

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

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

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd". The signature is fluid and cursive, with the first and last names clearly legible.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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

Board of County Commissioners

District 1 – Dan Delozier
District 2 – Steve Hendrix
District 3 – Ron Burrows

County Assessor

Scott Marsh

County Clerk

Jeanne Heidlage

County Sheriff

Scott Walton

County Treasurer

Jason Carini

Court Clerk

Cathi Edwards

District Attorney

Matt Ballard

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

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.....	17
Comparative Schedule of Expenditures—Budget and Actual—Budgetary Basis—Health Fund.....	18
Note to Supplementary Information.....	19

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 <i>Government Auditing Standards</i>	20
Schedule of Findings and Responses	22
Appendix A: District Attorney Opinion to the Board of County Commissioners of Rogers County Regarding Finding 2019-010 - Lack of Internal Controls Over Drug Court (Prepared by District Attorney)	38

FINANCIAL SECTION

Independent Auditor's Report

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

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

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

Unmodified Opinion on Regulatory Basis of Accounting

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

Other Matters

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2020, on our consideration of Rogers 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 Rogers County's internal control over financial reporting and compliance.

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

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

December 22, 2020

REGULATORY BASIS FINANCIAL STATEMENT

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

	Beginning Cash Balances July 1, 2018	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2019
Combining Information:						
County General Fund	\$ 2,678,622	\$ 11,253,834	\$ 2,533,967	\$ 3,328,080	\$ 10,604,428	\$ 2,533,915
County Highway Unrestricted	3,238,401	3,672,214	500,000	500,000	2,721,982	4,188,633
County Bridge and Road Improvement Fund (CBRIF)	1,403,382	594,063	1,000,000	1,000,000	262,356	1,735,089
911 Phone Fees	1,289	21	-	-	-	1,310
Assessor Revolving Fee	5,929	1,508	-	-	620	6,817
County Clerk Lien Fee	39,790	16,748	-	-	24,183	32,355
County Clerk Records Management and Preservation	230,777	54,659	-	-	85,405	200,031
Jail	2,670,734	3,221,026	-	-	2,861,897	3,029,863
Court Clerk Payroll	123,520	233,530	30,000	30,000	299,142	57,908
Emergency Management	35,531	67,718	-	-	19,159	84,090
Free Fair Board	142,537	213,197	-	-	177,220	178,514
County Health	1,439,859	1,443,758	-	-	1,158,592	1,725,025
Planning and Zoning	68,924	85,029	750	-	37,201	117,502
Resale Property	1,351,841	408,137	510,234	510,607	311,227	1,448,378
Sheriff Board of Prisoners	193,516	231,897	-	11,000	152,745	261,668
Sheriff Commissary	152,296	430,936	-	-	460,676	122,556
Sheriff Forfeiture	28,482	140,291	-	-	52,590	116,183
Sheriff Service Fee	103,056	320,161	1,000	-	336,967	87,250
Treasurer Mortgage Certification Fee	46,026	18,636	-	-	2,015	62,647
Sheriff Drug Enforcement	1,545	-	-	-	-	1,545
County Donations	67,112	47,972	-	-	7,996	107,088
Use Tax - Sales Tax	1,475,787	3,525,915	-	-	3,139,241	1,862,461
Courthouse Improvement Sales Tax	-	1,674,073	-	-	1,674,073	-
Roads and Bridges Sales Tax	4,156,938	3,849,059	1,328,080	500,000	4,878,519	3,955,558
Jail Sales Tax	230,884	3,356,888	-	-	3,587,485	287
Judgement Debt Sales Tax	-	3,745,001	-	-	3,745,001	-
Community Development Block Grant 16608-15 Port Coveris	-	59,821	-	-	59,821	-
Community Development Block Grant 16721-16 Tacora Phase II	-	49,950	-	-	49,950	-
Community Development Block Grant 17147-17 Mayes County Rural Water District 2	-	383,519	-	-	383,519	-
Economic Development Administration (EDA) Grant	-	1,110,322	-	-	863,870	246,452
Community Development Block Grant-17050-17 Rogers County Rural Water District 3	-	249,950	-	-	249,950	-
Community Development Block Grant-17410-12 Mayes County Rural Water District 2	-	325,000	-	-	325,000	-
Office of Justice Programs Bullet Proof Vest Grant	12,105	11,455	-	23,560	-	-
Justice Assistance Grant-Local Law Enforcement Block Grant 2018	-	-	10,000	-	-	10,000
Oklahoma Attorney General 2018 Safe OK Grant	-	22,492	-	-	14,405	8,087
Drug Court	156,934	218,104	-	-	209,389	165,649
	<u>\$ 20,055,817</u>	<u>\$ 41,036,884</u>	<u>\$ 5,914,031</u>	<u>\$ 5,903,247</u>	<u>\$ 38,756,624</u>	<u>\$ 22,346,861</u>
Combined Total - All County Funds						

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including emergency medical districts, city-county health departments, 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 with revenues from ad valorem taxes, officers' fees, sales tax, interest earnings, and miscellaneous collections of the County.

County Highway Unrestricted – accounts for revenues from state-imposed fuel taxes. Disbursements are for the maintenance and construction of county roads and bridges.

County Bridge and Road Improvement Fund (CBRIF) – accounts for state money received for construction and/or improvement of bridges within the County.

911 Phone Fees – accounts for revenue from collection of fees charged on telephone bills for the County's emergency 911 system. Disbursements are for expenditures related to providing these services as restricted by state statute.

Assessor Revolving Fee – accounts for revenues from any and all fees collected by the County

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

Assessor plus interest earnings. Disbursements are to maintain electronic databases and geographic information systems in the Assessor's office as restricted by state statute.

County Clerk Lien Fee – accounts for revenues from fees charged by the County Clerk for filing liens. Disbursements are for any lawful expense of the County Clerk's office.

County Clerk Records Management and Preservation – accounts for revenues from fees charged by the County Clerk for recording instruments. Disbursements are for the maintenance and preservation of public records.

Jail – accounts for revenues from incarceration fees, restitution payments, and contractual payments from the Rogers County Criminal Justice Authority. Disbursements are for the maintenance and operation of the jail, salaries, food, medical expenses, board of prisoners and travel.

Court Clerk Payroll accounts for monies received from Court Clerk's Court Fund for the disbursement of payroll to Court Fund employees.

Emergency Management – accounts for the receipt and disbursement of federal and state funds for civil defense and emergency management services.

Free Fair Board – revenues are collected through ad valorem based on millage rate. Disbursements are for lawful expenses for Free Fair Board.

County Health – accounts for revenues from ad valorem taxes, miscellaneous fees charged by the health department and state and federal funds. Disbursements are for the operation of the county health department.

Planning and Zoning – accounts for the collection of building permit fees, utility permit fees, engineering fees, and licenses. Disbursements are used for the salaries and general operations of the Planning Commission Office.

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

Sheriff Board of Prisoners – accounts for revenue received from incarceration fees and monies received from the State of Oklahoma for the boarding and feeding of Department of Corrections prisoners and disbursements as restricted by state statute.

Sheriff Commissary – accounts for monies received from commissary sales in the county jail. Disbursements are for jail operations as defined by state statute.

Sheriff Forfeiture – accounts for revenue from distribution made by the District Attorney after settlement of forfeiture cases. Disbursements are used to purchase firearms and ammunition.

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

Sheriff Service Fee – accounts for the collection and disbursement of sheriff process service fees, Court Clerk fees, and contract revenues related to the boarding of prisoners as restricted by state statute.

Treasurer Mortgage Certification Fee – accounts for revenues from fees charged for certifying mortgages. Disbursements are for any lawful expense of the County Treasurer's office.

Sheriff Drug Enforcement – accounts for revenues from the sale of property forfeited in drug cases. Disbursements are for officer training, equipment, and crime prevention.

County Donations – accounts for revenues from various sources as gifts to the County. Disbursements are restricted for the purposes the donation was intended.

Use Tax - Sales Tax – accounts for revenues from sales tax charged to out-of-county vendors on in-county sales and for excess sales and use tax returned from the bank trust after bond payments are made. Disbursements are for any legal expenditure of the County.

Courthouse Improvement Sales Tax – accounts for the collection of sales tax revenue and disbursement of funds as restricted by the sales tax ballot.

Roads and Bridges Sales Tax – accounts for revenues from one cent sales tax to be used for the construction, improvement, maintenance, and repair of County roads and bridges.

Jail Sales Tax – accounts for the collection of the one-half percent ($\frac{1}{2}\%$) County sales tax that is to be administered by the Rogers County Criminal Justice Authority in accordance with the sales tax ballot.

Judgement Debt Sales Tax – accounts for the collection of sales tax revenue. Disbursements are for the payment of the judgment in the Material Services Corporation case as restricted by the sales tax ballot.

Community Development Block Grant 16608-15 Port Coveris – accounts for federal grant revenues to be used for the purpose of parking and facilities improvements to an existing Port of Catoosa.

Community Development Block Grant 16721-16 Tacora Phase II – accounts for federal grant revenues to be used for the purpose of improvements to the Tacora Water Treatment Plant.

Community Development Block Grant 17147-17 Mayes County Rural Water District 2 – accounts for federal grant revenues to be used for the purpose of the Mayes County Rural Water District 2 project to extend the water distribution system to the industrial park (Project Autumn manufacturing facility). These grant funds were used in conjunction with the Economic Development Administration (EDA) Grant.

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

Economic Development Administration (EDA) Grant – accounts for federal grant revenues received by Rogers County on behalf of co-recipients; Rogers County, Town of Inola, and Mayes County Rural Water District 2. These funds are to be used for water infrastructure improvements to connect the industrial site to the existing Mayes County Rural Water District 2 water infrastructure.

Community Development Block Grant 17050-17 Rogers County Rural Water District 3 – accounts for federal grant revenues to be used for the purpose of the Rogers County Rural Water District 3 Lowry Road water system improvements. These grant funds were used in conjunction with the Economic Development Administration (EDA) Grant.

Community Development Grant 17410-12 Mayes County Rural Water District 2 – accounts for federal grant revenues to be used for the purpose of the Mayes County Rural Water District 2 project to extend the water distribution system to the industrial park (Project Autumn manufacturing facility). These grant funds were used in conjunction with the Economic Development Administration (EDA) Grant.

Office of Justice Programs Bullet Proof Vest Grant – accounts for federal revenues received from United States Office of Justice to be used for bullet proof vests for the County Sheriff's office.

Justice Assistance Grant-Local Law Enforcement Block Grant 2018 – accounts for federal funds from a Justice Assistance Grant. Disbursements are for law enforcement body cams and equipment.

Oklahoma Attorney General 2018 Safe OK Grant – accounts for revenue received from the Office of Attorney General Safe Oklahoma Grant. Disbursements are for prevention of violent crimes.

Drug Court – accounts for the contractual payments from the Oklahoma State Department of Mental Health and Substance Abuse and fees collected from drug court participants. Disbursements are for the operational cost of running the Drug Court Program.

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

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

financial statement on a regulatory basis in conformity with Title 19 O.S. § 171. County governments (primary only) are required to present their financial statements on a fund basis format with, at a minimum, the general fund and all other county funds, which represent ten percent or greater of total county revenue with all other funds included in the audit presented in the aggregate in a combining statement. However, the County has elected to present all funds included in the audit in the Statement of Receipts, Disbursements, and Changes in Cash Balances—Regulatory Basis.

D. Budget

Under current Oklahoma Statutes, a general fund and a county health department fund are the only funds required to adopt a formal budget. On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved for the respective fund by office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

E. Cash and Investments

For the purposes of financial reporting, “Ending Cash Balances, June 30” includes cash and cash equivalents and investments as allowed by statutes. The County pools the cash of its various funds in maintaining its bank accounts. However, cash applicable to a particular fund is readily identifiable on the County’s books. The balance in the pooled cash accounts is available to meet current operating requirements.

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County’s deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

The County Treasurer has been authorized by the County’s governing board to make investments. Allowable investments are outlined in statutes 62 O.S. § 348.1 and § 348.3.

The County has investments with an original cost of \$479,520 in the Federal Farm Credit Bank and the Federal Home Loan Bank. These bonds have the implicit backing of the Federal Government and fall within the acceptable purchases of the County’s Investment Policy, which was approved by the BOCC and legal counsel.

All investments, except for those investments noted in the preceding paragraph, are backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured. All investments, except for those investments noted in the preceding paragraph, as classified by state statute are nonnegotiable certificates of deposit. Nonnegotiable certificates of deposit are not subject to interest rate risk or credit risk.

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

2. Ad Valorem Tax

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. The County Treasurer, according to the law, shall give notice of delinquent taxes and special assessments by publication once a week for two consecutive weeks at any time after April 1, but prior to the end of September following the year the taxes were first due and payable. Unpaid real property taxes become a lien upon said property after the treasurer has perfected the lien by public notice.

Unpaid delinquent personal property taxes are usually published in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

3. Other Information

A. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

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

B. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to \$105 each for retirees who are members of an eligible group

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

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.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in management's opinion, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

D. Long Term Obligations

1. Judgments

The County was sued in an inverse condemnation action. Rogers County District Court Case CJ-2004-234 involved a claim for lost profits and mining royalties arising from the annexation of real property into the City of Claremore-Rogers County Metropolitan Planning Area. On May 2, 2012, the plaintiff was awarded \$27,929,657 with interest accruing at \$4,017 per day at the statutory rate of 5.25% for the calendar year 2012 and thereafter at the rate prescribed in Oklahoma Statutes Title 12 O.S. § 727.1. This judgement was paid by the Rogers County Finance Authority through a bond issue, Sales Tax Revenue Bonds Series 2012 (Series 2012), that will be repaid with a dedicated sales tax that shall expire and cease to be collected when said indebtedness of the Authority is paid.

Sales Tax Revenue Bonds Series 2012

<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Amount</u>
Material Service Corporation Lawsuit	3.00 – 4.65%	\$32,375,000

During fiscal year 2019, the Authority retired Series 2012 bonds in the amount of \$1,025,000. Additionally, to date, the Authority has made early principal payments totaling \$5,455,000. These payments were applied to the bonds due to mature in 2036 thereby reducing total interest payments.

Future principal and interest payments for the retirement of the Series 2012 debt as follows:

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

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
8/01/2019	\$ 1,045,000	\$ 434,200	\$ 1,479,200
2/01/2020	-	421,138	421,138
8/01/2020	<u>21,015,000</u>	<u>421,138</u>	<u>21,436,138</u>
Total	<u>\$22,060,000</u>	<u>\$1,276,476</u>	<u>\$23,336,476</u>

Sales Tax Revenue Refunding Bonds Series 2017

On August 1, 2017, the Authority issued \$22,600,000 in Sales Tax Revenue Refunding Bonds with interest rates ranging between 2.62% and 3.60%. The bonds were issued to refund the Sales Tax Revenue Bonds Series 2012 and to pay the costs and expenses of the issuance of the Series 2017 bonds. The Series 2017 bonds will also be repaid with the dedicated sales tax that shall expire and cease to be collected when said indebtedness of the Authority is paid.

Interest on the bonds is payable semi-annually on February 1st and August 1st at varying rates starting February 1, 2018. Principal payments are due semi-annually on February 1st and August 1st starting February 1, 2018. The Authority retired Series 2017 bonds in the amount of \$2,435,000 during fiscal year 2019. Additionally, in fiscal year 2019, the Authority has made early principal payments totaling \$1,005,000. These payments were applied to the bonds due to mature in 2028 thereby reducing total interest payments.

Future principal and interest payments for the retirement of the Series 2017 debt as follows:

<u>FYE June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,950,000	\$ 595,776	\$ 2,545,776
2021	2,015,000	536,750	2,551,750
2022	2,070,000	477,808	2,547,808
2023	2,140,000	418,654	2,558,654
2024	2,205,000	352,452	2,557,452
2025-2028	<u>7,320,000</u>	<u>606,737</u>	<u>7,926,737</u>
Total	<u>\$17,700,000</u>	<u>\$2,988,177</u>	<u>\$20,688,177</u>

The Authority defeased the Series 2012 bonds with the Series 2017 bonds and anticipated paying the Series 2012 bonds in full by August 1, 2020. The Series 2012 bonds were callable on August 1, 2020, at which time, the bonds were redeemed and paid in full. The following securities were purchased with the Series 2017 funds, held in trust and placed in escrow. These securities along with the excess sales tax received from the County and the interest generated from these securities were used to meet the debt service requirements for the Series 2012 bonds as follows:

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

Maturity Date	US Treasury	Interest Rate	Anticipated Interest Income to 7/31/2020	Total Available for Debt Service 7/31/2020
	Note Share Amount			
7/31/2019	\$ 1,294,000	1.625%	\$ 31,541	\$ 1,325,541
1/31/2020	247,000	1.250%	6,175	253,175
7/31/2020	<u>21,263,000</u>	1.625%	<u>863,809</u>	<u>22,126,809</u>
	<u>\$22,804,000</u>		<u>\$ 901,525</u>	<u>\$ 23,705,525</u>

During the fiscal year 2019, the County collected a total of \$3,745,001 in sales tax collections dedicated for the obligation of the bonds issued to pay the judgment awarded against the County. These funds were remitted to the Rogers County Finance Authority. Since July 1, 2012, the County has remitted \$22,791,487 to the Rogers County Finance Authority in sales tax dedicated for the obligation of the bonds issued to pay the judgment awarded against the County.

E. Changes in Long-Term Debt-Rogers County Finance Authority

Long-term debt consists of Finance Authority bonds payable. The County is the beneficiary of the Finance Authority. The following is a summary of the changes in long-term debt of the Authority for the fiscal year.

Bonds Payable	Balance 6/30/2018	Proceeds	Payments	Balance 6/30/2019	Due Within One Year
2012 Series	\$ 23,085,000	\$ -	\$ 1,025,000	\$22,060,000	\$ 1,045,000
2017 Series	<u>21,140,000</u>	<u>-</u>	<u>\$ 3,440,000</u>	<u>17,700,000</u>	<u>1,950,000</u>
Total	<u>\$ 44,225,000</u>	<u>\$ -</u>	<u>\$ 4,465,000</u>	<u>\$39,760,000</u>	<u>\$ 2,995,000</u>

F. Sales Tax

Sales Tax of May 1, 1997 (Rate change occurred in 2009)

The voters of Rogers County approved a one-half percent (1/2%) sales tax effective May 1, 1997, to be administered by the Rogers County Criminal Justice Authority for the purpose of acquiring a site and erecting, furnishing, equipping, operating, and maintaining a county jail to be applied or pledged toward the payment of principal and interest on any indebtedness, including refunding indebtedness, incurred by or on behalf of Rogers County for such purposes. This one-half percent (1/2%) sales tax became effective May 1, 1997, and continues thereafter, but reduced to one-third percent (1/3%) on the earlier of May 1, 2015, or the date of payment or provision for payment of all indebtedness, incurred by or on behalf of Rogers County. The principal debt was retired in 2009 and the sales tax was reduced to one-third percent (1/3%). These funds are accounted for in the Jail Sales Tax fund.

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

Sales Tax of December 8, 2009

On December 8, 2009, Rogers County voters approved to extend the one-third of the one-half cent (one-sixth) sales tax, for the purpose of erecting, furnishing, equipping, renovating, operating and maintaining county buildings and facilities and acquiring sites therefore and/or to be applied or pledged toward the payment of principal and interest on any indebtedness, including refunding indebtedness incurred by or on behalf of Rogers County for such purpose such sales tax is to commence January 1, 2010, and continue thereafter until the earlier of thirty years from the commencement date or the date of payment or provision for payment of all indebtedness including refunding indebtedness incurred by or on behalf of Rogers County for such purpose. These funds are accounted for in the Courthouse Improvement Sales Tax fund.

Sales Tax of June 26, 2012

On June 26, 2012, Rogers County voters approved an additional one-third percent (1/3%) sales tax effective July 1, 2012, providing that the purpose of such sales tax shall be solely to pay the principal and interest on indebtedness incurred by the Roger County Finance Authority for the purpose of satisfying indebtedness incurred on behalf of satisfying debt in Case No. CJ-2004 – 234 in the District Court of Mayes County. Said sales tax will expire and cease to be collected when said indebtedness of the authority is paid; fixing effective date; making provisions cumulative, and providing severability of provisions, to be provided. These funds are accounted for in the Judgement Debt Sales Tax fund.

Sales Tax of August 13, 2013

On August 13, 2013, Rogers County voters approved the renewal of a one-cent sales tax, which originally began on April 1, 1988. The sales tax was renewed for a period of five years. Proceeds of the sales tax are to be used for the construction, improvement, maintenance, and repair of County roads and bridges, and 12 1/2% of the proceeds to pay the judgment in the Material Services Corporation case. The sales tax proceeds to be used for the construction, improvement, maintenance, and repair of County roads and bridges are accounted for in the Roads and Bridges Sales Tax fund and the 12 1/2% proceeds used to pay the judgement in the Material Services Corporation case are accounted for in the Judgement Debt Sales Tax fund.

G. 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

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

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 \$197,928 of ad valorem taxes abated under this program for the fiscal year ended June 30, 2019.

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

H. Interfund Transfers

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

- \$500,000 was transferred from the Resale Property fund to the County General Fund to meet requirements of appropriation in accordance with 68 O.S. § 3021.
- \$500,000 was from the County General Fund to the Resale Property fund for repayment of the loan in accordance with 68 O.S. § 3021.
- \$500,000 was transferred from the County Highway Unrestricted fund to the County General Fund to meet requirements of appropriation in accordance with 68 O.S. § 3021.
- \$500,000 was transferred from the County General Fund to the County Highway Unrestricted fund for repayment of the loan in accordance with 68 O.S. § 3021.
- \$1,000,000 was transferred from the County Bridge and Road Improvement Fund (CBRIF) to the County General Fund to meet requirements of appropriation in accordance with 68 O.S. § 3021.
- \$1,000,000 was transferred from the County General Fund to the County Bridge and Road Improvement Fund (CBRIF) for repayment of the loan in accordance with 68 O.S. § 3021.
- \$500,000 was transferred from the Roads and Bridges Sales Tax fund to the County General Fund to meet requirements of appropriation in accordance with 68 O.S. § 3021.
- \$500,000 was transferred from the County General Fund to the Roads and Bridges Sales Tax fund for repayment of the loan in accordance with 68 O.S. § 3021.

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

- \$23,560 was transferred from the Office of Justice Programs Bullet Proof Vest Grant fund to the County General Fund to partially pay back a fiscal year 2018 temporary loan made in accordance with 68 O.S. § 3021 for \$27,500 that was not repaid before June 30, 2018.
- \$10,407 was transferred from the Resale Property fund to the County General Fund in accordance with 68 O.S. § 3131.
- \$828,080 was transferred from the County General Fund to the Road and Bridges Sales Tax fund by Board of County Commissioners (BOCC) approved transfer resolution to establish a uniform system of bookkeeping in accordance with 74 O.S. § 214.
- \$30,000 was transferred from the Court Fund (a trust and agency fund) to the Court Clerk Payroll fund to meet the requirements of appropriation in accordance with 68 O.S. § 3021.
- \$30,000 was transferred from the Court Clerk Payroll fund to the Court Fund (a trust and agency fund) fund for repayment of the loan in accordance with 68 O.S. § 3021.
- \$750 was transferred from Planning Commission Escrow (a trust and agency fund) to the Planning and Zoning fund to correct apportionment errors from fiscal year 2017.
- \$10,034 was transferred from Excess Resale Property fund (a trust and agency fund) to the Resale Property fund as authorized by 68 O.S. § 3131.
- \$10,000 was transferred from Sheriff Board of Prisoners fund to Justice Assistance Grant-Local Law Enforcement Block Grant fund to meet the requirements of appropriation in accordance with 68 O.S. § 3021.
- \$1,000 was transferred from the Sheriff Board of Prisoners fund to the Sheriff Service Fees fund to meet the requirements of appropriation in accordance with 68 O.S. § 3021.
- \$200 was transferred to the Resale Property fund to correct a prior year apportionment error.
- \$200 was transferred from the Resale Property fund to correct a prior year disbursement error.

SUPPLEMENTARY INFORMATION

ROGERS COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL—
BUDGETARY BASIS—GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund		
	Budget	Actual	Variance
County Sheriff	\$ 2,518,561	\$ 2,500,005	\$ 18,556
County Treasurer	347,215	347,160	55
County Commissioners	270,863	145,322	125,541
County Commissioners O.S.U. Extension	250,917	236,019	14,898
County Clerk	592,692	576,958	15,734
Court Clerk	377,396	375,238	2,158
County Assessor	435,262	433,398	1,864
Revaluation of Real Property	481,376	472,504	8,872
General Government	2,728,361	1,821,012	907,349
Excise - Equalization Board	5,001	3,872	1,129
County Election Expense	259,067	256,039	3,028
Insurance - Benefits	2,074,438	1,973,979	100,459
Information Technology	99,518	96,990	2,528
Planning Commission	278,376	275,701	2,675
Charity	10,500	3,000	7,500
Emergency Management	87,354	86,948	406
911 Dispatchers	758,000	712,400	45,600
General Highway Dist #1	4	-	4
General Highway Dist #2	453	35	418
General Highway Dist #3	2,409	2,404	5
County Audit Budget Account	95,140	1,800	93,340
Cemetery Acct Dist #1	51,308	36,419	14,889
Cemetery Acct Dist #2	32,258	29,200	3,058
Cemetery Acct Dist #3	7,598	7,560	38
Maintenance Department Account	322,662	302,909	19,753
Total Expenditures, Budgetary Basis	\$ 12,086,729	\$ 10,696,872	\$ 1,389,857

ROGERS COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF EXPENDITURES —BUDGET AND ACTUAL—
BUDGETARY BASIS—COUNTY HEALTH DEPARTMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Health Fund		
	Budget	Actual	Variance
Health and Welfare	\$ 2,381,350	\$ 1,173,807	\$ 1,207,543
Total Expenditures, Budgetary Basis	\$ 2,381,350	\$ 1,173,807	\$ 1,207,543

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

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
ROGERS 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 Rogers County, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statement, which collectively comprises Rogers County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated December 22, 2020.

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

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

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



A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2019-001 and 2019-013.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: 2019-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rogers County's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2019-013.

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

Rogers County's Response to Findings

Rogers County's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Rogers County's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

December 22, 2020

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

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

Finding 2019-001 – Lack of County-Wide Controls (Repeat Finding 2008-003, 2009-003, 2010-003, 2011-004, 2012-004, 2013-004, 2014-003, 2015-003, 2016-001, 2017-001, 2018-001)

Condition: Through the process of gaining an understanding of the County’s internal control structure, it was noted that county-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

The County began holding monthly staff meetings with the county-wide offices. These meetings have addressed some of the County’s deficiencies with Risk Assessment and Monitoring controls. However, to date, the County still does not appear to have controls in place to ensure annual financial statements or the Schedule of Expenditures of Federal Awards (SEFA) are reviewed for accuracy and completeness, to ensure audit findings are corrected, or to address risks related to fraudulent activity and noncompliance with laws.

Cause of Condition: Policies and procedures have not been designed and implemented to address the risks of the County.

Effect of Condition: Without an adequate system of county-wide controls, there is greater risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: The Oklahoma State Auditor & 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 and implement 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.

Management Response:

Board of County Commissioners: The Board of County Commissioners (BOCC) is working with all elected officials to develop policies and procedures to ensure a strong internal control environment. These policies are intended to ensure the accuracy of the County’s financial statements, Estimate of Needs, the Schedule of Federal Awards (SEFA), and compliance with all statutory requirements. The County discontinued all interdepartmental purchase orders in fiscal year 2019. The County engaged an accounting firm to assist in the preparation of financial statements and is working with elected officials to increase the oversight and accuracy of financial reporting. With respect to SEFA reporting, Rogers County is developing a standard operating procedure to accurately track and report SEFA grants. Monthly staff meetings address financial reports, budget oversight, SEFA reporting, and legal compliance.

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

County Clerk: The County Clerk's office is working with all elected officials to develop policies and procedures to ensure a strong internal control environment. These policies are intended to ensure the accuracy of the County's financial statements, Estimate of Needs, SEFA, and compliance with all statutory requirements. The County discontinued all interdepartmental purchase orders in fiscal year 2019. The County Clerk's office will continue to work with elected officials to ensure compliance.

County Treasurer: All federal revenues are received/receipted in the County Treasurer's office. The County Treasurer's office will continue to provide all offices and officials with federal revenues received in the County Treasurer's office. Additionally, on an annual basis, the BOCC contracts with an accounting firm to prepare the financial statements. The County Treasurer's office began to review the financial statements prepared by this accounting firm fiscal year 2020. The BOCC engaged a new accounting firm to assist in the preparation of the fiscal year 2021 financial statements.

Criteria: The United States Government Accountability Office's Standards for Internal Control in the Federal Government (2014 version) aided in guiding our assessments and conclusion. Although this publication (GAO Standards) addresses controls in the federal government, this criterion can be treated as best practices and may be applied as a framework for an internal control system for state, local, and quasi-governmental entities.

The GAO Standards – Section 1 – Fundamental Concepts of Internal Control – OV1.01 states in part:

Definition of Internal Control

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

Additionally, GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.04 states in part:

Components, Principles, and Attributes

Control Environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

Information and Communication - The quality information management and personnel communicate and use to support the internal control system.

Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

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

Finding 2019-004 – Lack of Internal Controls Over the Financial Statement, Notes to the Financial Statement, and Supplemental Information (Repeat Finding 2016-007, 2017-007, 2018-004)

Condition: The County is responsible for preparing their annual financial statements, notes to the financial statements, and supplemental information. However, this required information was not submitted to, and received by OSAI, until February 10, 2020, seven months after fiscal year end.

Additionally, during the review and reconciliation of the financial statement, as initially prepared by the County, the following was noted:

- Apportionment errors of \$1,485,181 in the aggregate. These errors were due to:
 - \$272,918 in due to fund to fund disbursements,
 - \$822,306 in sales tax collections remitted out and not apportioned.
 - \$324,290 in drug court collections deposited and retained in the official depository and
 - \$65,667 in apportionment and transfer classification errors.
- Transfer In errors of \$312,431 in the aggregate, due to:
 - \$150,616 in residual and operational transfers-in classification errors, and
 - \$161,815 in residual and operational transfers-out classification errors,
- Disbursement errors of \$1,301,895 in the aggregate, due to:
 - \$272,918 in due to fund to fund disbursements,
 - \$822,306 in sales tax collections remitted out instead of being apportioned, appropriated, and disbursed on purchase order and warrant.
 - \$163,105 in drug court expenditures made from the official depository and
 - \$43,566 in disbursement and transfer classification errors.
- Beginning fund balance errors of \$414 in the aggregate, due to beginning fund balances being transposed and adjusted.
- Ending fund balance errors of \$161,499 in the aggregate due to:
 - \$161,186 in County fund being held in the Official Depository for the Drug Court fund and
 - \$313 in beginning balance errors not corrected.

Cause of Condition Policies and procedures have not been designed and implemented to ensure the County's financial statements, notes to the financial statement, and supplemental information are accurately presented.

Effect of Condition: These conditions resulted in the cash balance, revenues, and disbursements being inaccurately reported on the County financial statements and the financial statements, notes to the financial statements, and supplemental information not being completed in a timely manner.

Recommendation: OSAI recommends the County design and implement policies and procedures to ensure the financial statements, notes to the financial statements, and supplemental information are reviewed for accuracy and completeness, and approved by management. OSAI also recommends the County present financial statements and applicable notes to the financial statements, to OSAI for review within two months of fiscal year end.

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

Management Response:

Board of County Commissioners: The BOCC is working to implement policies and procedures to ensure accurate and timely reporting of the County's financial statements, notes to financial statements, and supplemental information. The BOCC engaged a new accounting firm to assist in the preparation of financial statements for fiscal year 2021. Rogers County discontinued interdepartmental purchase orders in fiscal year 2019. The BOCC will continue working with all elected officials to ensure compliance and oversight of financial reports.

County Clerk: The County Clerk's Office will continue to work with all elected officials to ensure accurate financial reporting. The County Clerk will develop necessary policies and procedures to track apportionment and transfer classification as necessary. Additionally, Rogers County discontinued interdepartmental purchase orders in fiscal year 2019.

County Treasurer: The County Treasurer's office will continue to accurately record transactions on the underlying financial records used in the preparation of the County's financial statements. Beginning in fiscal year 2020, the Treasurer's Office took on a more active role in working with the County's budget maker to ensure accurate financials were submitted. This office now reviews the OSAI prescribed transfer forms 237 & 240 to ensure accuracy as they pertain to the County's financials (per OSAI Standard Operating Procedures). Additionally, Rogers County discontinued interdepartmental purchase orders in fiscal year 2019.

Criteria: The County is required to present a financial statement for each fiscal year ended June 30. Title 19 O.S. § 171 states, in part, "Unless the county elects to prepare its financial statement in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board, the county shall present their financial statements in a regulatory basis of accounting."

The limitations of the auditor are described in the American Institute of Certified Public Accountants Clarified Statements on Auditing Standards AU-C § 210, which states, in part: "The concept of an independent audit requires that the auditor's role does not involve assuming management's responsibility for the preparation and fair presentation of the financial statements or assuming responsibility for the entity's related internal control and that the auditor has a reasonable expectation of obtaining the information necessary for the audit insofar as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an independent audit."

Finding 2019-013 – Lack of Internal Controls and Noncompliance Over Disbursement Process (Repeat Finding- 2005-002, 2006-004, 2008-006, 2009-006, 2010-006, 2011-002, 2012-002, 2014-002, 2015-002, 2016-009, 2017-009, 2018-005)

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

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

A sample of sixty-seven (67) out of fifty-one thousand four hundred and thirty-six (51,436) expenditures reflected that six (6) expenditures totaling \$1,301,381 were not encumbered prior to receiving goods or services.

Additionally, the County issued one hundred sixty-one (161) purchase orders and warrants totaling \$272,917 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.

Furthermore, beginning September 2018, the County stopped issuing purchase orders and warrants from the Drug Court fund. Drug Court revenues and expenditures were maintained in the Official Depository fund. Drug Court funds in the amount of \$163,975 were expended on an Official Depository voucher. These expenditures were approved by the Associate District Judge and not the Board of County Commissioners.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the County is in compliance with state statutes regarding the disbursement process for all County funds. Additionally, policies and procedures have not been designed and implemented to ensure purchase orders are not issued for the purpose of transferring funds or to correct errors.

Effect of Condition: These conditions resulted in noncompliance with state statutes, unrecorded transactions, undetected errors, and inaccurate records and could have resulted in the misappropriation of funds.

Recommendation: OSAI recommends the County implement a system of internal controls over the disbursement process. Such controls should include ensuring that funds are encumbered prior to the receipt of goods and/or services, be supported by adequate documentation, and that purchase orders and warrants should be issued in accordance with 19 O.S. § 1505.

Management Response:

Board of County Commissioners: Rogers County has implemented policies and procedures to ensure all expenditures comply with state statutes. Rogers County discontinued interdepartmental purchase orders in fiscal year 2019. Policies and procedures have been created to ensure, regarding the disbursement process, that all expenditures are supported by adequate documentation.

Beginning in September 2018, and upon advice of counsel, the Board of County Commissioners discontinued any affiliation and/or involvement with the Drug Court Program operated by the District Court of Rogers County. Pursuant to the opinion of the Rogers County District Attorney's Office, the Rogers County Drug Court is not a Rogers County program and receives no funding from Rogers County. Therefore, Rogers County terminated any and all involvement in the Rogers County Drug Court program.

County Clerk: The County Clerk's office works diligently to ensure that requisitions are presented for numbering prior to purchases or services being rendered. Policies and procedures have been implemented to ensure that all purchase orders comply with state statutes. Rogers County discontinued interdepartmental

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

purchase orders in fiscal year 2019. Policies and procedures have been created to ensure, regarding the disbursement process, that all expenditures are supported by adequate documentation.

Beginning in September 2018, and upon advice of counsel, the Board of County Commissioners discontinued any affiliation and/or involvement with the Drug Court Program operated by the District Court of Rogers County. Pursuant to the opinion of the Rogers County District Attorney's Office, the Rogers County Drug Court is not a Rogers County program and receives no funding from Rogers County. Therefore, Rogers County terminated any and all involvement in the Rogers County Drug Court program.

Criteria: 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.

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

Title 68 O.S. § 3003 states in part, ... “The recipient government may encumber funds in an amount not to exceed the sum of the total letter of commitment, which is a binding commitment of funding which the recipient government will receive for the project or projects eligible for such federal funding. The encumbrance of funds authorized by this section shall be made in accordance with procedures prescribed by the State Auditor and Inspector and shall be administered in accordance with rules and regulations concerning such distribution adopted by the federal government and the state agency, board, or commission. Any expenditure incurred by the recipient government using the letter of commitment appropriation process and disallowed by the federal government or state agency, board, or commission administering the funds shall be paid by the recipient government.”

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

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 2019-018 – Lack of Internal Controls and Noncompliance Over the Inmate Trust Fund Checking Account and Sheriff Commissary Fund (Repeat Finding)

Condition: Upon inquiry of personnel, observation of procedures, records, and testwork performed, OSAI noted the following regarding the Inmate Trust Fund Checking Account and Sheriff Commissary Fund:

Inmate Trust Fund Checking Account:

- One employee is responsible for accessing and balancing the lock box collections, preparing the deposit slip, taking the deposit to the bank, updating inmate’s account balances with credits and deductions, performing monthly bank reconciliation, is the direct contact for the bookkeeping system vendor, and is denoted as an official check signer in the bank account.
- There is no indication of independent monitoring or review of the bookkeeping functions of the Inmate Trust Fund Checking Account.
- Individual inmate balances are not reconciled back to the Inmate Trust Ledger balance used in the Inmate Trust Fund Checking Account bank reconciliation; there was an unknown variance of \$1,731.
- The Inmate Trust Ledger balance did not reconcile back to the bank balances on the bank reconciliations prepared by the Sheriff’s employee.
- Bank reconciliations prepared by the Sheriff’s employees are not signed by the individual who prepares them and do not indicate being reviewed and approved by someone other than the preparer.
- Bank reconciliations prepared by the jail service vendor were not reviewed and approved by a County employee.
- Checks issued from the Inmate Trust Fund Checking Account are not always signed by an authorized signer. Additionally, the County Sheriff’s name is sometimes signed by someone other than the County Sheriff.
- Access to the Inmate Trust Fund Checking Account check stock is not limited during business hours.
- The County Sheriff does not have procedures in place to track unclaimed funds.
- Employees lack sufficient knowledge of the operations of the jail service vendor’s software system to effectively use the system and monitor the activity within the system.

Sheriff Commissary Fund:

- The County Sheriff’s office does not file an annual report for the Sheriff Commissary Fund with the Board of County Commissioners by January 15th of each year.

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

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

Effect of Condition: These conditions resulted in noncompliance with state statutes. Additionally, due to the segregation of duties issues and lack of monitoring and review process, individuals within the County Sheriff's office were not familiar with collection, disbursement, and reconciliation processes related to the Inmate Trust Fund Checking Account. Without proper accounting and safeguarding of the Inmate Trust Fund Checking Account, there is an increased risk of misappropriation of funds.

Recommendation: OSAI recommends that 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 monitor accounting functions by performing reviews and approvals.

OSAI further recommends the County Sheriff implement procedures to ensure:

- Bank reconciliations are performed on a monthly basis, reviewed for accuracy, and approved by someone other than the preparer.
- Individual inmate balances are reconciled to the Inmate Trust Fund ledger balance.
- All checks issued from the Inmate Trust Fund Checking Account are signed by two authorized employees, signers sign only their names, and check stock is secured at all times.
- Employees receive additional training on the jail service software system.
- The unclaimed fund report maintained in the jail service software system is utilized by the Sheriff's office.
- The County Sheriff files a report of the commissary with the County Commissioners by January 15th of each year in accordance with 19 O.S. § 180.43 (A).

Management Response:

County Sheriff: The Sheriff's office has implemented policies and procedures to properly administer the Inmate Trust Fund Checking Account and Sheriff Commissary Fund pursuant to state statute. Additionally, the County Sheriff's office has implemented policies and procedures to ensure appropriate oversight over and segregation of duties within the Inmate Trust Fund Checking Account.

Criteria: Component objectives of effective internal control systems are to deter and detect fraud and to provide accurate and reliable information. Internal controls are designed to safeguard assets and to analyze and check accuracy, completeness, and authorization of transactions. Failure to perform tasks that are part of internal controls, such as segregating duties or implementing compensating reviews, performing bank reconciliations accurately and timely, and maintaining records in a manner to ensure compliance with state statutes and/or to minimize the risk of misappropriation, are deficiencies in internal control.

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

Management of human capital

Effective management of an entity's workforce, its human capital, is essential to achieving results and an important part of internal control. Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and

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

responsibilities is operational success possible. Management continually assesses the knowledge, skills, and ability needs of the entity so that the entity is able to obtain a workforce that has the required knowledge, skills, and abilities to achieve organizational goals. Training is aimed at developing and retaining employee knowledge, skills, and abilities to meet changing organizational needs. Management provides qualified and continuous supervision so that internal control objectives are achieved. Management designs a performance evaluation and feedback system, supplemented by an effective rewards system, to help employees understand the connection between their performance and the entity's success.

Establishment of review of performance measurers and indicators

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.

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.

Accurate and timely recording of transactions

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

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

Safeguarding of Assets

Management designs an internal control system to provide reasonable assurance regarding

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

prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets.

Title 19 O.S. § 180.43 D. states in part, "...Any funds received pursuant to said operations shall be the funds of the county where the persons are incarcerated and shall be deposited in the Sheriff's Commissary Account. The sheriff shall be permitted to expend the funds to improve or provide jail services. The sheriff shall be permitted to expend any surplus in the Sheriff's Commissary Account for administering expenses for training equipment, travel or for capital expenditures. The claims for expenses shall be filed with and allowed by the board of county commissioners in the same manner as other claims. The Sheriff shall receive no compensation for the operation of said commissary. The sheriff shall file an annual report on any said commissary under his or her operation no later than January 15 of each year."

Finding 2019-019 – Internal Controls and Noncompliance Over Drug Court (Repeat Finding)

Condition: The Oklahoma Department of Mental Health and Substance Abuse entered into a contract with the District Court of Rogers County. This contract utilizes the County's tax identification number and requires the financial officer of the Drug Court to be an employee of the County and not a member of the Drug Court Team.

The contract was signed by the Rogers County Associate District Judge, who acts as the Drug Court Judge. The contract was not presented to the BOCC for action or acceptance nor was the County Treasurer notified that he would be acting as the financial officer to the Drug Court. The contract further stated that revenues (payments) and disbursements of funds related to this contract shall be made through the designated financial officer.

As part of the audit of the County's books of record, the State Auditor's office examined the contract, receipts, and disbursements related to the drug court processes and noted the following weaknesses in the financial processes:

Drug Court Coordinator:

- The Associate District Judge, also referred to as the Drug Court Judge, was the sole approver of the contract with the Drug Court Coordinator (Coordinator) to run the day to day operations of Drug Court.
- This contract also provides, that in addition to the annual contract amount of \$92,130, the Coordinator receives \$20 per individual home visit and \$50 per sober living house visit which resulted in the Coordinator receiving an additional \$23,276 in fiscal year 2019.
- Although the Coordinator is referred to as an independent contractor in the contract, the contract allows for the following benefits which is in contradiction to what the IRS would allow in classifying an individual as an independent contractor:
 - Annual longevity pay,

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

- 120 hours of paid sick leave per year,
- 160 hours of vacation leave per year,
- Holiday pay when the Courthouse is closed,
- Compensatory time for “On Call Time”,
- Unused vacation time to be rolled over to the next year, and
- The BOCC provides office space for the Coordinator.

Drug Court Collections and Disbursements:

- Internal controls have not been established over the receipting and disbursing of Drug Court funds.
 - In September of 2018, Drug Court revenues and expenditures were run solely through the Official Depository (O.D.).
 - \$163,975 in Drug Court expenditures were pre-approved only by the Associate District Judge and the District Attorney and were not reviewed and approved by the BOCC.
 - Official Depository vouchers were signed by the District and Associate District Judges.
 - A concentration of duties is assigned to one person, the Coordinator who:
 - Receives all collections,
 - Issues receipts for collections,
 - Posts payments to ledgers,
 - Reconciles collections to receipts,
 - Prepares deposit ticket,
 - Takes deposits to the County Treasurer,
 - Prepares Officer’s Monthly Report,
 - Calculates amount to be vouchered to Cash Funds (July and August 2018),
 - Prepares month end Official Depository vouchers to Cash Funds (July and August 2018),
 - Orders and receives all goods or services,
 - Performs home visits,
 - Invoices the County for home visits performed,
 - Prepares and retains all documentation for home visits,
 - Writes all Official Depository vouchers out to vendors, including herself,
 - Takes the Official Depository vouchers to the District and Associate District Judge for their signatures,
 - Acts as second signor on Official Depository vouchers not made to her if second judge is not available,
 - Takes signed Official Depository vouchers to County Treasurer’s office to be registered,
 - Receives signed, registered Official Depository vouchers,
 - Mails out or hand delivers the Official Depository vouchers to the vendor, and
 - Retains all support documentation for expenditures made on Official Depository vouchers.
 - There is no independent oversight to determine collection and disbursement processes are correct or complete.

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

- There is no independent review of home visit documentation to ensure the amount the Coordinator invoices for and ultimately receives payment for (\$23,276 in FY 2019) is substantiated.
 - During a review of home visit invoices, OSAI noted the following:
 - The invoice dated July 9, 2018 for purchase order 193 indicated the Coordinator completed one hundred and twenty-two (122) compliance checks on July 4, 2018 at a cost of \$2,440.
 - The invoice dated July 9, 2018 for purchase order 194 indicated the Compliance Officer also completed one hundred and twenty-two (122) compliance checks on July 4, 2018 at a cost of \$2,440.
 - Most home visits are performed by both the Coordinator and the Compliance Officer; therefore, the charge to Drug Court for each individual home visit is doubled.
- Collections received in the Drug Court office are not deposited daily.
- Drug Court participants pay a \$40 monthly supervision fee. Participants are only allowed to pay fees with money order or cashier's check.
 - Drug Court ledgers do not accurately identify when monthly participation payments are received but rather payments are posted to the month the payment should have been received. This could provide the opportunity to fraudulently record and/or misappropriate funds.
 - Receipted collections for Drug Court participation fees do not agree to deposits:
 - In July 2018, receipted collections were \$7,221 and deposits were \$7,601.
 - In December 2018, receipted collections were \$12,715 and deposits were \$13,751.
 - In February 2019, receipted collections were \$8,460 and deposits were \$8,073.
 - In June 2019, receipted collections were \$6,272 and deposits were \$6,194.
- Receiving reports are not utilized for goods and/or services received.

Alternative Courts Audit:

For fiscal year 2019, the Oklahoma Department of Mental Health and Substance Abuse required the Rogers County District Court to obtain an independent audit of the funds provided to Rogers County District Court for the Drug Court program. The Coordinator and the Associate District Judge contracted with a local CPA firm to perform the audit on the fiscal year 2019 financial statements of the Rogers County Alternative Courts. The audit identified a lack of internal control due to the lack of a governing board of the program and additionally noted the program was not covered by commercial insurance.

Cause of Condition:

- The Oklahoma Department of Mental Health and Substance Abuse has not clearly communicated the role of Rogers County in the financial reporting, collection, and disbursement processes of drug court funds despite having included the County in the contract.
- On July 30, 2018, the Associate District Court Judge and the District Court Judge ordered "...all monies/funds collected by the Rogers County Drug Court Program shall be deposited with the

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

County Treasurer's office and not with the County Clerk's office. All monies deposited from this point forward shall remain in the depository of the Rogers County Treasurer's office until paid out upon specific orders of the court."

- State statutes regarding the operation of drug courts are very vague in the actual administration of the funds. Further, the statutes have not been followed regarding the collection of fees by the Court Clerk.
- Regarding the Coordinator's role as independent contractor, the Drug Court and the County have not followed IRS guidelines in determining how to properly classify an employee vs. contract labor.

Effect of Condition: These conditions have resulted in noncompliance with state statutes and public funds not being handled in a responsible manner and not properly reported for auditing purposes. Rogers County officials have been held accountable for the collection and disbursement of Drug Court funds without proper direction from the Oklahoma Department of Mental Health and Substance Abuse or any statutory guidance. Additionally, these conditions could result in misappropriation of Drug Court funds and misclassification of the Coordinator's position as an employee vs. independent contractor.

Recommendation: OSAI recommends:

- The Oklahoma Department of Mental Health and Substance Abuse establish written policies and procedures that clearly communicate to the County and the Drug Court Team their expectations for the administering of Drug Court funds.
- All contracts that obligate the County be approved and signed by the BOCC.
- County management should immediately establish internal controls regarding the collection and disbursement of drug court funds to safeguard against misappropriation and errors in reporting.
- Drug Court funds should be expended in accordance with state purchasing guidelines.
- County management and the Drug Court Team should review the relevant drug court statutes in Title 22 §§ 471 through 471.11 to ensure compliance regarding the handling of drug court funds.
- County management determine the employment status of the Drug Court Coordinator and ensure compliance with IRS guidelines.

Management Response:

Board of County Commissioners: The District Attorney's Office has advised the Board of County Commissioners that Rogers County does not have the authority to operate, fund, or oversee Drug Court. The DA's opinion concludes; therefore, Drug Court is not a county program. Further, because Rogers County is not a party to the Drug Court contract and did not agree to the terms of the contract, the Drug Court contract is invalid and unenforceable against Rogers County. Finally, the Drug Court Coordinator is not a Rogers County employee. Rogers County did not authorize or approve the independent contractor agreement with the Drug Court Coordinator. The County does not pay the Drug Court Coordinator's salary. With respect to the provision of space for the Drug Court Coordinator within the Rogers County Courthouse, the Board of County Commissioners is required by law to provide space for Rogers County District Court. A portion of the space allocated for the use of the Rogers County District Court, at the discretion and direction of the Rogers County District Court, has been provided to the Drug Court Coordinator for her use. Rogers County does not exert any control of the District Court's use of space provided by the Rogers Court for use by the Rogers County District Courts.

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

Please see Appendix A of this report for complete District Attorney's opinion to the Board of County Commissioners of Rogers County regarding this finding.

Drug Court Judge: Judge chose not to respond.

Rogers County District Attorney/Drug Court Board Member: The District Court is responsible for establishing the Drug Court Program pursuant to the provisions of the Oklahoma Drug Court Act, OKLA. STAT. tit. 22, § 471, et seq (the "Act"). See OKLA. STAT. tit. 22, § 471.1(B) ("Each district court of this state is authorized to establish a drug court program pursuant to the provisions of this act, subject to availability of funds¹."). The Presiding Judge of the Judicial District designates a judge to administer the Drug Court Program. Id. at 471.1(D).

The Act requires the creation of a Drug Court Team. Id. The Drug Court Team consists of the Judge assigned to "administer the program, a district attorney, a defense attorney, and other persons designated by the drug court team . . ." Id. The district attorney is a mandatory member of the Drug Court Team. See Id.

The Rogers County Drug Court Program is a felony drug court created pursuant to the Act. District Judge Steve Pazzo administers the Drug Court Program. As required by the Act, District Attorney Matt Ballard serves as a member of the Drug Court Team.

With respect to expenses and expenditures of the Rogers County Drug Court, the Drug Court Coordinator is responsible for ensuring all expenses are necessary expenditures of the program and is responsible for properly encumbering funds and tracking purchases. The Drug Court Coordinator presents generic expenses to the Drug Court Team for review. The expenses, as presented, indicate general purchases of office supplies, equipment, materials, etc. The Drug Court Team does not receive or review specific expenditures of the Drug Court Program.² As a member of the Drug Court Team, Mr. Ballard reviews the expenditures pursuant to the statutory duty to ensure that all expenditures appear, on their face, to support the "goal of the Drug Court Program and of the appropriate treatment methods for the various conditions." Id. at 471.1(D). Mr. Ballard's review and oversight as a member of the Drug Court Team that all expenditures appear on their face to ensure with the statutory requirements that drug court programs meets the specific requirements enumerated in the Act, specifically those requirements set forth in OKLA. STAT. tit. 22, § 471.1(G).

Mr. Ballard's participation and involvement in the Drug Court Team is mandated by the Act. While Mr. Ballard is required to be a member of the Drug Court Team, there is no statutory requirement that the Drug Court Team review or approve expenditures by the Drug Court Program. The Act requires Mr. Ballard's participation in the Drug Court Program to ensure the goals of the Drug Court Program are maintained, however, pursuant to the Act, the operation of the Drug Court Program remains vested in the District Court as the entity responsible for establishing and administering the Drug Court Program.

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

¹ All funding for the Rogers County Drug Court comes from the State of Oklahoma, through the Department of Mental Health. No funding is provided by Rogers County or the District Attorney's Office.

² Expenditures relating to the payment of the Drug Court Coordinator are not submitted to the Drug Court team for review. Further, the Drug Court Coordinator's contract is not submitted to the Drug Court Team for review or approval. All decisions relating to the hiring and compensation provided to the Drug Court Coordinator are made by the District Court Judge administering the Drug Court Program.

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.

Appropriate documentation of transactions and internal controls

Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

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

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

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.

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

Title 19 O.S. § 171 A. states, "Each county of this state shall every two (2) years have an audit made by the State Auditor and Inspector or a duly appointed deputy or deputies of all of the books, records and accounts of all the officers of each county of this state, which audit shall be general in its nature and shall include an audit of the books, records and accounts of all officers who collect or disburse monies, fees, fines or public charges of any kind including therein a tax roll audit, a claim audit, and an audit of each of the justices of peace within the County."

APPENDIX A

**DISTRICT ATTORNEY OPINION TO THE BOARD OF COUNTY COMMISSIONERS OF
ROGERS COUNTY REGARDING FINDING 2019-019 - LACK OF INTERNAL CONTROLS
OVER DRUG COURT**

(Prepared by District Attorney)

2019-019: Drug Court (Repeat Finding 2016-14, 2017-015, 2018-010)

Management Response

Board of County Commissioners: The District Attorney's Office has advised the Board of County Commissioners that Rogers County does not have the authority to operate, fund, or oversee Drug Court. The DA's opinion concludes, therefore, Drug Court is not a county program. Further, because Rogers County is not a party to the Drug Court contract and did not agree to the terms of the contract, the Drug Court contract is invalid and unenforceable against Rogers County. Finally, the Drug Court Coordinator is not a Rogers County employee. Rogers County did not authorize or approve the independent contractor agreement with the Drug Court Coordinator. The County does not pay the Drug Court Coordinator's salary. With respect to the provision of space for the Drug Court Coordinator within the Rogers County Courthouse, the Board of County Commissioners is required by law to provide space for Rogers County District Court. A portion of the space allocated for the use of the Rogers County District Court, at the discretion and direction of the Rogers County District Court, has been provided to the Drug Court Coordinator for her use. Rogers County does not exert any control of the District Court's use of space provided by the Rogers Court for use by the Rogers County District Courts.

District Attorney's Office, District 12, as legal counsel for the Board of County Commissioners of Rogers County: District Attorney's Office, District 12:

I. Rogers County does not have the authority to operate a felony drug court.

A county is "an involuntary, subordinate political subdivision of the state" and has no inherent powers. *Herndon v. Anderson*, 25 P.2d 326, 329 (Okla. 1933). A county has only those powers expressly authorized by statute. *Tulsa Exposition & Fair Corp. v. Bd. of Cty. Com'rs of Tulsa Cty.*, 1970 OK 67, ¶¶ 26-27, 468 P.2d 501, 507; *Johnston v. Conner*, 205 Okl. 233, 236 P.2d 987; *Herndon v. Anderson*, 165 Okl. 104, 25 P.2d 326. "Boards of County Commissioners derive their powers and authority wholly from the statutes, and acts performed by them must be done pursuant to authority granted by valid legislative action." *Tulsa Exposition & Fair Corp. v. Bd. of County Comm'rs*, 468 P.2d 501, 508 (Okla. 1970); *see also Ingle v. Board of County Commissioners*, Okl., 274 P.2d 1021; *Board of County Commissioners v. Warram*, Okl., 285 P.2d 1034. This authority extends to powers that are "necessarily or fairly implied or incidental to the powers expressly granted." *Shipp v. Se. Okla. Indus. Auth.*, 498 P.2d 1395, 1398 (Okla. 1972).

The Oklahoma Drug Court Act, OKLA. STAT. tit. 22, § 471, *et seq.*, creates "drug courts" and authorizes district courts in Oklahoma to establish a drug court program. *See* OKLA. STAT. tit. 22, § 471.1(B) ("each **district court** of this state is authorized to establish a drug court program pursuant to the provisions of this act . . ."). The Act grants counties limited authority to establish drug courts for misdemeanor offenses. *See Id.* at § 471.1(I) ("Nothing in this act shall prohibit any county from establishing a drug court for **misdemeanor** offenses."). Notwithstanding the limited

grant of authority to counties, drug courts established pursuant to the Act are for individuals who have committed felony offenses. *See* OKLA. STAT. tit. 22, § 471.2(A)(4).

Oklahoma law ***does not*** authorize counties to create, operate, or otherwise oversee felony drug courts. Courts examining the issue have reached the same conclusion. In *Attocknie v. Smith*, the U.S. District Court for the Eastern District of Oklahoma found that “[b]ased upon the Oklahoma statutes, this Court finds felony drug courts are an instrumentality of the State of Oklahoma since ***counties have no authority to establish felony drug courts.***” No. CIV-13-158-JHP, 2014 U.S. Dist. LEXIS 94331, at *11 (E.D. Okla. July 11, 2014) (emphasis added); *See also*, OKLA. STAT., tit. 22, § 471; OKLA. STAT. tit. 20, § 91.1.

The Act provides further evidence that counties are not responsible for operating or overseeing drug courts. The Act mandates the Chief Judge or Presiding Judge of the judicial district to “designate one or more judges to ***administer*** the drug court program.” OKLA. STAT. tit. 22, § 471.1(D) (emphasis added). The Act creates a “drug court team” that consists of a “***judge to administer the program . . .***” *Id.* (emphasis added). The Act does not vest authority to a county to create, manage, or oversee a felony drug court program.

Felony drug courts are separate political subdivisions of the State of Oklahoma. In *Burgess v. State*, the Oklahoma Court of Criminal Appeals held a district court’s drug court team constituted a separate political subdivision of the state. 2010 OK CR 25, ¶ 13, 243 P.3d 461, 463; *see also*, *Burgess v. Evans*, No. CIV-13-0724-M, 2014 U.S. Dist. LEXIS 169478, at *12-14 (W.D. Okla. Nov. 3, 2014) (relying on the Oklahoma Court of Criminal Appeals holding that drug court teams constituted a separate political subdivision of the state). In *Peel v. Smith*, the United States District Court for the Northern District of Oklahoma held drug courts were an arm of the State of Oklahoma and entitled to Eleventh Amendment protection. No. 07-CV-554-JHP, 2008 U.S. Dist. LEXIS 9894, at *4 (N.D. Okla. Feb. 8, 2008). The *Peel* Court found that the claim against the drug court was a claim against the state courts of Oklahoma. *Id.*

The drug court operated in Rogers County is a felony drug court created under the Act. *See* OKLA. STAT. tit. 22, § 471.2(A)(4). As required by Oklahoma law, Rogers County’s drug court program is operated by the 12th Judicial District through the appointed drug court judge. Rogers County does not have the legal authority to operate, maintain, or oversee the drug court program and, pursuant to Oklahoma law, has not engaged in any oversight or management of the drug court program.

II. Rogers County is not a party to the contract with the Oklahoma Department of Mental Health for the operation of drug court; is not a party to the independent contractor agreement with the drug court coordinator; and does not pay the drug court coordinator.

"A contract is an agreement to do or not to do a certain thing." OKLA. STAT. tit. 15, § 1. OKLA. STAT. tit. 15, § 2 lists the elements of a contract: "It is essential to the existence of a contract that there should be: 1. Parties capable of contracting. 2. Their consent. 3. A lawful object; and, 4. Sufficient cause or consideration." The elements required to show consent are: "The consent of the parties to a contract must be: 1. Free. 2. Mutual; and, 3. Communicated by each to the other."

OKLA. STAT. tit. 15, § 51; *see also* Restatement (Second) of Contracts § 17 (1979) ("[T]he formation of a contract requires a bargain in which there is a manifestation of mutual assent to the exchange and a consideration.").

Mutual consent is often, but not always, communicated through means of the exchange of an offer and acceptance. The requirement of an offer and acceptance was emphasized in *National Outdoor Advertising Co. v. Kalkhurst*, 418 P.2d 661, 664 (Okla. 1966), where the Oklahoma Supreme Court held: "It is an elementary rule of law in this jurisdiction that in order to constitute a contract there must be an offer on the part of one and an acceptance on the part of the other." *See also Armstrong v. Guy H. James Const. Co.*, 402 P.2d 275, 277 (Okla. 1965) ("An offer becomes a binding promise and results in a contract only when it is accepted."); *Horton Ins. Agency, Inc. v. Robinson*, 63 Okla. B.J. 547, 549 (Okla. Ct. App.) (Aug. 6, 1991) ("A valid and enforceable contract requires an offer, acceptance, and consideration.").

Audit Finding 2019-019 acknowledges that Rogers County is not a party to the contract:

The Oklahoma Department of Mental Health entered into a contract with the District Court of Rogers County.

Audit Finding 2019-019 (emphasis added). The finding further provides that:

the contract was not presented to the Board of County Commissioners for action or acceptance nor was the County Treasurer notified that he would be acting as the financial officer to the drug court."

Id. (emphasis added). Under Oklahoma law, the above factors show that the contract is unenforceable and void as to Rogers County. *See National Outdoor Advertising Co. supra*; *see also Armstrong v. Guy H. James Const. Co.*, 402 P.2d 275, 277 (Okla. 1965) ("An offer becomes a binding promise and results in a contract only when it is accepted."); *Horton Ins. Agency, Inc. v. Robinson*, 63 Okla. B.J. 547, 549 ("A valid and enforceable contract requires an offer, acceptance, and consideration."), *supra*. Neither the Department of Mental Health, the district court, nor the drug court judge has the authority to bind Rogers County.

Similarly, Rogers County is not a party to the contract with the drug court administrator. Audit Finding 2019-019 states:

The Associate District Judge, also referred to as the Drug Court Judge, was the sole approver of the contract with the Drug Court Coordinator (Coordinator) to run the day to day operations of Drug Court.

Audit Finding 2019-019 (emphasis added). As a non-party to the Drug Court Coordinator contract, the contract is void and unenforceable as to Rogers County. Rogers County did not approve of the contract and has no responsibility or liability for the terms contained therein. Any breach of the Drug Court Coordinator contract are the sole responsibility of the Associate District Judge and/or the Drug Court Coordinator. Finally, no county funds are used to pay the Drug Court Coordinator's salary.



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