



TULSA COUNTY, OKLAHOMA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

For the fiscal year ended June 30, 2022

Cindy Byrd, CPA
State Auditor & Inspector

**TULSA COUNTY, OKLAHOMA
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
FOR THE YEAR ENDED JUNE 30, 2022**

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April 8, 2024

TO THE CITIZENS OF
TULSA COUNTY, OKLAHOMA

Transmitted herewith is the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* of Tulsa County, Oklahoma for the fiscal year ended June 30, 2022. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

A report of this type is critical in nature. 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.

This report is 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.

Sincerely,

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

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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

TO THE OFFICERS OF
TULSA COUNTY, OKLAHOMA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Tulsa County, Oklahoma, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Tulsa County's basic financial statements, and have issued our report thereon dated January 8, 2024.

Our report includes a reference to other auditors who audited the financial statements of the Tulsa County Industrial Authority, the Tulsa County Criminal Justice Authority, the Tulsa County Home Finance Authority, the Tulsa County Employees' Retirement System, the Tulsa County Public Facilities Authority, the Tulsa County Juvenile Justice Trust Authority, and the Tulsa City/County Health Department, as described in our report on Tulsa County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tulsa County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tulsa County's internal control. Accordingly, we do not express an opinion on the effectiveness of Tulsa 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 a 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 as items 2022-002 and 2022-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a 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 deficiencies described in the accompanying schedule of findings and responses as items 2022-006, 2022-009 and 2022-011 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tulsa County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2022-003.

Tulsa County's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Tulsa County's response to the audit findings identified in our audit and described in the accompanying schedule of findings and responses. Tulsa County's response was not subjected to the other auditing procedures applied in the audit of the financial statements 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

January 8, 2024

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

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 2022-002 – Lack of Internal Controls Over the Reconciliation of the County Clerk’s Financial Records to the County Treasurer’s General Ledger – Fund Balances

Condition: During our review of the reconciliations of the County Clerk’s financial records to the County Treasurer’s General Ledger we noted the following:

- The County Clerk is not performing reconciliations in a timely manner.
- The reconciliations for May and June of 2022, that were prepared by the County Clerk and submitted to OSAI, required multiple revisions.
- The County Clerk’s reconciliations for fiscal year 2022 indicated no evidence of date prepared or date reviewed.
- The County Clerk’s reconciliations for April, May, and June 2022 were not signed by the preparer and had no evidence of being reviewed.
- The County Clerk provided the County Treasurer with inaccurate payment information related to payroll and vendor payments for the months of May and June 2022, which resulted in the County Treasurer’s fund balances being incorrect on June 30th.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the accuracy of cash balances and to ensure reconciliations between the County Clerk’s financial records and County Treasurer’s General Ledger are performed timely and accurately.

Effect of Condition: These conditions resulted in unrecorded transactions, misstated financial reports, and undetected errors. Further these conditions could have resulted in the misappropriation of funds.

Recommendation: The Oklahoma State Auditor and Inspector’s Office (OSAI) recommends the County Clerk design and implement internal controls to ensure:

- Reconciliations between the County Clerk’s financial records and the County Treasurer’s General Ledger are performed and completed timely.
- Reconciliations are signed and dated by the preparer and the reviewer.
- Reviews and approvals are performed by someone other than the preparer.
- Errors are identified and corrected in a timely manner.

Management Response:

Board of County Commissioners Chairman: As a member of the Board of County Commissioners (BOCC), I will work with both the County Clerk’s office and the County Treasurer’s office to ensure balancing issues are handled accurately and timely.

County Clerk: The County Clerk’s office is no longer printing paper to initial and date; we have implemented an approval trail via email. When implementing the new Enterprise Resource Planning (ERP)

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

system, we ran into some issues with both payroll and accounts payable (AP) vendor reports. These reports were corrected in December 2022 for payroll and July 2022 for AP vendors. Reconciliations were made more difficult because of these reporting issues. Now that this has been corrected, we expect reconciliations to become more timely and accurate.

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 quasigovernmental entities.

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

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.

The GAO Standards – Principle 13 – Use Quality Information states:

Data Processed into Quality Information

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

13.06 - Management processes relevant data from reliable sources into quality information within the entity’s information system. An information system is the people, processes, data, and technology that management organizes to obtain, communicate, or dispose of information.

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

Internal Control System Monitoring

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

includes regular management and supervisory activities, comparisons, reconciliations and other routine actions.

Finding 2022-003 – Lack of Internal Controls and Noncompliance Over Disbursements (Repeat Finding – 2007-009, 2008-001, 2009-001, 2010-002, 2011-001, 2016-002, 2017-001, 2018-001, 2019-001, 2020-001, 2021-001)

Condition: Upon inquiry of County personnel, observation of the County’s disbursement process, and testwork performed, the following was noted:

- The review of a sample of 76 of 10,805 General Fund disbursements reflected the following:
 - Four (4) disbursements totaling \$5,777 were not approved by the BOCC.
 - Seven (7) disbursements totaling \$6,300 were not supported by adequate/accurate receiving documentation.
 - Twelve (12) disbursements totaling \$1,588,173 were not encumbered prior to receiving goods or services.

- The review of a sample of 79 of 3,909 Highway Fund disbursements reflected the following:
 - Five (5) disbursements totaling \$41,203 were not properly approved by the BOCC.
 - Twelve (12) disbursements totaling \$47,086 were not encumbered prior to receiving goods or services.

- The review of a sample of 71 of 522 Special Project Fund disbursements reflected the following:
 - One (1) disbursement totaling \$2,194,771 was not supported by a draw down request/invoice.
 - Thirty-nine (39) disbursements totaling \$17,070,237 were not encumbered prior to receiving goods or services.
 - Six (6) disbursements totaling \$46,714 were not charged to the proper period.

- The review of a sample of 73 of 7,050 Other Governmental Fund disbursements reflected the following:
 - The County issued a purchase order and warrant in the amount of \$435,431 from the Court Clerk Revolving Fund, a cash fund, to the Court Clerk Revolving Fund, Official Depository Account, to open the Official Depository account. This resulted in the Other Governmental Fund disbursements being overstated by \$435,431.
 - Twenty-two (22) disbursements totaling \$1,044,702 were not encumbered prior to receiving goods or services.

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

- The review of a sample of 68 of 2,283 County Contribution Fund disbursements reflected the following:
 - Four (4) disbursements totaling \$5,598 were not supported by adequate/accurate receiving documentation.
 - Twenty-five (25) disbursements totaling \$1,244,332 were not encumbered prior to receiving goods or services.

Cause of Condition: Policies and procedures have not been fully implemented with regard to the disbursement process and to ensure compliance with state statutes.

Effect of Condition: These conditions resulted in noncompliance with state statutes and could result in unrecorded transactions, misstated financial reports, undetected errors, misappropriation of funds, and a financial burden on the County.

Recommendation: OSAI recommends the County adhere to state purchasing guidelines to ensure:

- The availability of funds by encumbering prior to goods or services being order or received.
- Disbursements are supported by adequate/accurate documentation (PO, warrant, invoice, quotes, receiving report, draw down request).
- Disbursements are approved by the BOCC.
- Purchase orders and warrants are not used to transfer between funds.

Additionally, OSAI recommends goods or services be paid from funds designated for use during the fiscal year from which the goods or services were obtained.

Management Response:

County Commissioner – District 1: The BOCC will work with all our departments to ensure funds for goods and services are encumbered prior to receiving them. We will work with other officials and counsel to address contracts where needed.

County Commissioner – District 2: The BOCC will work with all our departments to ensure funds for goods and services are encumbered prior to receiving them. We will work with other officials and counsel to address contracts where needed.

County Commissioner – District 3/Board of County Commissioners Chair: The BOCC will work with all our departments to ensure funds for goods and services are encumbered prior to receiving them. We will work with other officials and counsel to address contracts where needed.

County Clerk: Regarding the encumbrances for federal grants, it is impossible to encumber the purchase orders prior to receiving goods or services. These are pass-through grants, and even though grant administrator provides the BOCC with the information of the awarded grants per project in the beginning of the fiscal year, we don't have the fund to encumber any purchase orders until the grant administrator requests for the drawdown from the federal agency. In addition, grant administrator can draw the funds from any ledger years and can even transfer the funds from one project to other projects. Thus, we have no

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

way of knowing where the grant administrator would spend the money from. That would make it impossible for the County to encumber purchase orders prior to receiving good or services.

With regards to the encumbrance for quarterly payments to outside entities, an allocation of General Fund dollars are approved to several outside entities via the Budget Board. These funds are encumbered on a quarterly basis, and cannot be encumbered prior to receiving goods/services, as there are no goods/services to be received.

With regards to the expenditure of federal funds from the Emergency Rental Assistance Program without a drawdown request, there was a drawdown was requested it was just not done in written form via email. We do now ensure that drawdowns are requested via email, so we have a written trail for support.

We are continually improving our receiving processes. All open purchase orders converted into our new ERP system, however, because of how the old system treated blanket purchase orders and how the new system treats blanket purchase orders, the receipt of those converted purchase orders had to be done in various ways to ensure payments could be made appropriately. As the converted blanket purchase orders have been winding down, we don't expect this to be an issue for fiscal year 2023.

Regarding the expenditure information on the Claims Report approved by the BOCC in an open meeting not agreeing to the actual expenditure documentation, it was discovered that there was a misalignment in the TCAP001 Purchase Orders (Claims Report) derived from the new ERP system for FY22. The figures are correct, in that the BOCC was approving amounts that were being paid out, however, it appears that the PO number was not matching up with certain invoices and amounts. This has since been corrected for all of fiscal year 2023 Claim Reports, and the report now correctly aligns the vendor, PO, invoice, and amount.

The \$435,430 that was paid out from the Court Clerk Revolving Fund to the Court Clerk Revolving Fund Official Depository via purchase order and warrant was not reclassified as a transfer because it was not discovered until after the books were closed.

Auditor Response: Encumbrances should always be made prior to the ordering or purchasing of goods or services to ensure adequate funds are available to pay for such goods or services and to prevent unconstitutional debt to the county. Additionally, Title 68 O.S. § 3003 allows for the encumbering of federal funds from the letter of intent.

County Sheriff: The purchase orders, totaling \$877,886, for the monthly coolant system at David L. Moss Criminal Justice Center, were only encumbered to pay for the current charges as we were disputing \$108,099 in charges related to the 2021 ice storm. These items were finally resolved in August, 2023.

In March 2022, the Tulsa County Sheriff's Office (TCSO) conducted supervisory training which included sessions on the purchasing process. In early 2023, TCSO Purchasing met to update the encumbrance process which included encumbering utilities and other services prior to the service dates. A monthly, quarterly, and annual encumbrance checklist was developed and has been instrumental in ensuring all purchase orders are encumbered timely. An end of year open purchase order report was developed and has been helpful with open purchase orders that should be closed by September 30. TCSO Purchasing Supervisor, took the

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

County Training Program's Introduction to Purchasing Procedures in November 2023. The remaining TCSO purchasing/AP staff are expected to have the course completed by March 31, 2024.

With regards to receiving documentation within the County's new ERP system agreeing to or providing adequate information, during the transition to the new system we worked diligently to learn and understand the system to ensure compliance with state statutes and we hope to have resolved the issues noted.

Court Clerk: With regards to the pass-through grants and payments are processed between the Court Administrator's office and the County Clerk fiscal office paid from the Court Clerk Revolving Fund. The Court Clerk is not involved in the processes over these actions.

After a conversation with the County Clerk's fiscal office, in terms of the pass-through grant payments, the procedure is similar to what is done for all pass-through grants where Tulsa County is the pass-through entity. In this case, the District Court is responsible for the administration of those grants and deals with the day-to-day operations. As such, when they receive bills for services they will gather the documents and complete a draw down from the Federal system where they are awarded the grant funds. The Feds will send an Electronic Funds Transfer which comes to the Budget Division of the County to be deposited. These funds are deposited into Fund 380 – Court Clerk Revolving, an appropriation journal enter is made to move the funds to the corresponding SC. Once the funds are available, the County Clerk's fiscal office will encumber a purchase order to the vendor as noted by the District Courts in the paperwork they receive after initiating the draw. The purchase order is requisitioned after the dates on the invoices because the funds become available after the District Court initiates the draw. The County Clerk's fiscal office has nothing to do with the administration of these grants, they are awarded to the District Courts and we function as the pass-through entity only. We do not know who the vendors will be until we are sent the paperwork along with the draw information.

Per the conversation with Alternative Courts office, their office receives the invoice from the vendor, then a Payment Request is prepared and presented to the Court Administrator. It is signed by her and the current Presiding Judge. That payment request initiates the Substance Abuse and Mental Health Services Administration (SAMHSA) fund request to be made. Once Alternative Courts receives confirmation from the Treasure that the funds have come in, the funds are deposited and appropriated to the correct account. A requisition is input in the ERP system which triggers a purchase order. That purchase order is then submitted to procurement with the invoice and then a check is created after it goes in front of the BOCC.

Auditor Response: Encumbrances should always be made prior to the ordering or purchasing of goods or services to ensure adequate funds are available to pay for such goods or services and to prevent unconstitutional debt to the County. Additionally, Title 68 O.S. § 3003 allows for the encumbering of federal funds from the letter of intent.

Criteria: The 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

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.

Therefore, effective internal controls require management properly implement procedures to ensure that expenditures are made in compliance with state statutes:

19 O.S. § 1505 prescribes the procedures for requisition, purchase, and receipt of supplies, material, and equipment.

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

Title 62 O.S. § 310.4 states in part, “All unencumbered balances, if any, [...] on hand at the close of day June 30, may remain as a credit for said fiscal year up to the close of day September 30, next. [...] Provided this act shall not be so construed to allow the incurring of a new indebtedness after June 30 chargeable to the appropriation account of the immediately preceding fiscal year.”

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.”

Finding 2022-006 – Lack of Internal Controls and Noncompliance Over the Payroll Process

Condition: During inquiry and observation of the County’s payroll process, we noted the following:

- The payroll disbursement journal authorizations, that document BOCC approval for payroll payments, for the months of July 2021, September 2021, November 2021, December 2021, January 2022, February 2022, March 2022, April 2022, and May 2022 were not signed by the BOCC until August 22, 2022.
- The BOCC minutes for fiscal year 2023 did not specifically indicate BOCC approval for payroll payments.

Cause of Condition: Policies and procedures have not been designed and implemented over the payroll process.

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Effect of Condition: These conditions resulted in noncompliance with state statutes and could result in unrecorded transactions, misstated financial records, clerical errors, or misappropriation of funds.

Additionally, since the payroll disbursement journals were signed long after payroll was paid and approval of payroll was not specifically mentioned in the minutes, assurance that payroll was approved by the BOCC could not be obtained.

Recommendation: OSAI recommends the County design and implement a system of internal controls over the payroll process to ensure all payroll expenditures are approved by the BOCC prior to the issuance of payroll, the approval is made in an open meeting, and documentation of such approval is retained and noted in the minutes of the BOCC meeting.

Management Response:

County Commissioner – District 1: Many of the issues with payroll processes have been addressed by the County Clerk's office since the implementation of the ERP system. I will work with the County Clerk's office and other elected officials to reach compliance on all payroll issues.

County Commissioner – District 2: Many of the issues with payroll processes have been addressed by the County Clerk's office since the implementation of the new ERP system. I will work with the County Clerk's office and other elected officials to reach compliance on all payroll issues.

County Commissioner – District 3: Many of these issues have been addressed by the County Clerk's office since the implementation of the ERP system.

County Clerk: For the months of November 2021, December 2021, January 2022, February 2022, March 2022, April 2022 and May 2022, the correct payroll claim form was not submitted to be attached to agenda in error. This was due to new ERP system and not having the integration set up to send automatically. This procedure has been updated and implemented to have appropriate documentation sent to BOCC for placement on agenda. The stated months of July 2021 and September 2021 are on the agenda and have been approved.

Regarding the BOCC minutes not showing approved payroll for fiscal year 2023. The payroll claims are in same documents as AP claims and have been approved in open meetings, but you cannot see those published online. This procedure has been changed to have the payroll claims published on website from this point moving forward.

The agenda does have "claims to pay", as Tulsa County has always done on the agendas, which includes AP and payroll. When the packet gets published to the website, only one document can be attached regarding claims and AP has been being attached but not payroll. From this point forward, there will be two lines on the agenda, one for AP and one for payroll and the supporting documents will be attached to each of those.

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

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.

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

Proper execution of transactions

Transactions are authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources are initiated or entered into. Management clearly communicates authorizations to personnel.

Title 19 O.S. § 3 specifies that no one commissioner may enter into a contract or agreement or transact any business of county. Any contact or business transaction “done or attempted to be done, by an individual commissioner or commissioners, when not acting as a board shall ever be subject to ratification by the board of county commissioners, but shall be illegal, unlawful and wholly void.”

Title 62 O.S. § 304.1 and 62 O.S. § 471, which provides guidance for the disbursement of public funds and the payment of personnel, require the board of county commissioners to approve the expenditure of all public funds.

Finding 2022-009 - Lack of Internal Controls and Noncompliance Over Consumable Inventories (Repeat Finding - 2021-004)

Condition: On June 30, 2022, OSAI performed an inventory count at each of the three (3) district barns governed by the individual County Commissioners of Tulsa County and at the Highway District Barn (District 4) which is governed by the Tulsa County BOCC as a whole. We selected a sample of 20 consumable inventory items to trace from the district barns to consumable inventory listings and 20 consumable inventory items to trace from the consumable inventory listings to the district barns.

Inventory records provided on June 30, 2022, indicated total consumable inventory was \$724,031. After the count, the County adjusted final inventory balances to \$961,623, an increase of \$237,592 or 33%. These adjustments were in response to pervasive variances noted in our inventory count in all four districts.

Further, upon inquiry of County personnel and observation and review of consumable inventory records, the District Barns do not have an adequate segregation of duties to ensure that duties assigned to individuals are done so in a manner that would not allow one individual to control both the recording function and the procedures relative to processing a transaction.

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

- District 1
 - Two individuals act as both the receiving and inventory officers.
- District 2
 - One individual acts as both the receiving and inventory officer.
- District 3
 - One individual acts as both the receiving and inventory officer.
- District 4
 - Two individuals act as both the receiving and inventory officers.

Additionally, at Districts 2, 3, and 4 there were individuals performing the duties of a receiving officer who had not been approved by the BOCC to act in that capacity.

We also noted the following deficiencies pertaining to all four district barns:

- Consumable inventory records are reviewed by County Engineering; however, no employee onsite is reviewing their consumable inventory.
- While other monitoring procedures are used, the districts rely solely on the in-ground fuel system for monitoring fuel consistently. No consistent reconciliation is performed.

Cause of Condition Policies and procedures have not been designed and implemented to ensure the accuracy of consumable inventory records and compliance with the state statutes regarding consumable inventories and requisitioning and receiving duties.

Effect of Condition: These conditions resulted in noncompliance with state statutes and misstated financial statements. Additionally, failure to maintain accurate records of consumable inventories and not performing a periodic physical inventory of consumable inventories could result in inaccurate records, unauthorized use, or misappropriation of consumable inventories.

While deficiencies in consumable inventory reporting were pervasive, we do not believe inventory is materially misstated, nor do we believe it would be necessary to qualify our audit opinion on the Highway Fund at this time. However, the potential for large variances resulting in a modified opinion in subsequent audits is probable.

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 review and approval of accounting functions.

Additionally, OSAI recommends only individuals designated and approved by the BOCC perform the duties of receiving officers as prescribed by 19 O.S. § 1503.

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

OSAI further recommends management implement internal controls to ensure the accuracy of inventory records and compliance with 19 O.S. § 1502 (A)(1), 19 O.S. § 1504 and 19 O.S. § 1505(G).

Management Response:

County Commissioner – District 1: I will work with the Engineering Department to make sure consumable inventory is properly accounted for and that appropriate segregation of duties is reached. The Engineering Department is currently implementing a new system that should achieve compliance with inventory tracking requirements.

County Commissioner – District 2: I will work with the Engineering Department to make sure consumable inventory is properly accounted for and that appropriate segregation of duties is reached. The Engineering Department is currently implementing a new system that should achieve compliance with inventory tracking requirements.

County Commissioner – District 3: I will work with the Engineering Department to make sure consumable inventory is properly accounted for and that appropriate segregation of duties is reached. The Engineering Department is currently implementing a new system that should achieve compliance with inventory tracking requirements.

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

Physical control over vulnerable assets

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

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.

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

Title 19 O.S. § 1503 provides guidance for the designation of requisitioning and receiving officers.

Title 19 O.S. § 1504 requires the receiving officer to maintain a record of all items received, disbursed, stored and consumed by the department.

Title 19 O.S. § 1505(G) provides guidance for the consumption or disposal of supplies and materials.

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Finding 2022-011 – Lack of Internal Controls Over the Financial Statements – Fiduciary Funds - Custodial Funds (Repeat Finding – 2021-008)

Condition: The County is responsible for preparing their annual financial statements, notes to the financial statements, and supplemental information in accordance with Generally Accepted Accounting Principles (GAAP).

In fiscal year 2021, the County implemented GASB Statement No. 84, *Fiduciary Activities*, (GASB 84) reporting requirements. According to the Governmental Accounting Standards Board – Summary of Statement 84, “The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.”

During our review of the Combining Statement of Changes in Fiduciary Net Position - Custodial Funds schedule, OSAI noted the County had reported monies in both the clearing accounts they were initially deposited into and the custodial funds in which they were distributed.

Cause of Condition Policies and procedures have not been designed and implemented to ensure the custodial funds reported on the County’s financial statements are identified and reported accurately.

Effect of Condition: These conditions resulted in:

- The County presenting revised fiduciary schedules.
- Significant additional testwork performed by OSAI to ensure custodial funds were accurately identified and reported.

Recommendation: OSAI recommends the County design and implement policies and procedures to ensure all of the County’s fiduciary activities are properly identified, the type of fiduciary fund used to report each fiduciary activity is correct, and the amounts reported on the fiduciary funds are accurate.

Management Response:

Board of County Commissioners Chairman: We will work to support the County Clerk’s office as they adjust to the new accounting standards.

County Clerk: In fiscal year 2021, the County implemented GASB 84, *Fiduciary Activities*. Fiduciary activities are in detail kept at the Treasurer’s office, of which the County Clerk’s office receives summarized information on these activities. The Clerk’s office has had numerous conversations with the Treasurer’s office in order to more fully understand this process. We are confident that the figures presented going forward will be wholly accurate.

Criteria: A basic objective of GAAP is to provide accurate and reliable information.

GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, paragraph 111 states, “Sometimes an agency fund is used as a *clearing account* to distribute financial resources to other funds of the

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

government, as well as other entities. For example, county property tax collectors customarily collect and distribute property taxes to the county's funds as well as to other governments within the county. When this occurs, the portion of the clearing account balance that pertains to other funds of the county should not be reported in agency funds. Rather, it should be reported as assets in the appropriate funds."

GASB Statement No. 84, *Fiduciary Activities*, paragraph 1 states, "The principal objective of GASB Statement 84 is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries."

The GAO Standards – Section 2 – Establishing an Effective Internal Control System – Objectives of an Entity – OV2.16 states:

Management, with oversight by an oversight body, sets objectives to meet the entity's mission, strategic plan, and goals and requirements of applicable laws and regulations. Management sets objectives before designing an entity's internal control system. Management may include setting objectives as part of the strategic planning process.

Additionally, Principle 13 – Use of Quality Information states:

Identification of Information Requirements

13.02 – Management designs a process that uses the entity's objectives and related risks to identify the information requirements needed to achieve the objectives and address the risks. Information requirements consider the expectations of both internal and external users. Management defines the identified information requirements at the relevant level and requisite specificity for appropriate personnel.

Data Processed into Quality Information

13.05 – Management processes the obtained data into quality information that supports the internal control system. This involves processing data into information and then evaluating the processed information so that it is quality information. Quality information meets the identified information requirements when relevant data from reliable sources are used. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. Management considers these characteristics as well as the information processing objectives in evaluating processed information and makes revisions when necessary so that the information is quality information. Management uses the quality information to make informed decisions and evaluate the entity's performance in achieving key objectives and addressing risks.

**TULSA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

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.

No matters were noted.

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



Cindy Byrd, CPA | State Auditor & Inspector

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