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

For the fiscal year ended June 30, 2016
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, 2016
January 10, 2017

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, 2016. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

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

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

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

Sincerely,

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

TO THE OFFICERS OF
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, 2016, and the related notes to the financial statements, which collectively comprises Tulsa County’s basic financial statements, and have issued our report thereon dated December 30, 2016. 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 Board, 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.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 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 deficiency described in the accompanying schedule of findings and responses to be a material weakness: 2016-2.
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: 2016-1.

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 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 2016-1 and 2016-2.

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

Tulsa County’s Responses to Findings

Tulsa County’s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Tulsa County’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

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

December 30, 2016
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 2016-1 – Inadequate Internal Controls Over Operational Transfers and Noncompliance with State Statutes

Condition:
- The County’s budget was not properly amended, adopted, or filed with the County Excise Board, County Clerk, or Oklahoma State Auditor and Inspector to reflect the $5,952,259.26 in General Fund monies transferred to other funds as noted:
  - $2,572,952 to the County Contribution Fund,
  - $1,634,924.57 to the Risk Management Fund,
  - $140,000.00 to the Parking Fund,
  - $229,488.00 to the Specialty Courts Fund,
  - $206,000.00 to the Sheriff’s Cash Fund,
  - $513,000.00 to the Juvenile Cash Fund,
  - $165,894.69 to the Specialty Projects Fund, and
  - $490,000.00 to the County Highway Fund.
- Dedicated sources of revenue were transferred between funds and it could not be determined that expenditures of these revenues were spent for the purposes outlined in state statutes that govern them.
- The County’s procedures allow interfund transfers to be made and available for obligation prior to the Budget Board approving the interfund transfers.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with 19 O.S. § 1420 and with state statutes that govern restricted revenue streams. Further, the County does not require the prior approval of the Budget Board before allowing interfund transfers and the obligation of those funds.

Effect of Condition: These conditions resulted in noncompliance with state statutes, restricted revenues possibly being used for purposes other than those specified by state statutes, and funds being appropriated without prior Budget Board approval.

Recommendation: The Oklahoma State Auditor & Inspector’s Office (OSAI) recommends the Budget Board amend and adopt the budget in accordance with the County Budget Act to reflect individual or groups of interfund transfers. The amended budget should then be filed with the County Excise Board, County Clerk and the Oklahoma State Auditor and Inspector. Additionally, OSAI recommends the County maintain a method of accounting that ensures restricted revenues are expended only as statutorily allowed and transfers between funds be approved by the Budget Board prior to availability.
Management Response:

Board of County Commissioners, County Treasurer, and County Clerk: With regard to the condition identified by the auditors as “The County’s budget was not properly amended, adopted, or filed with the County Excise Board, County Clerk, or Oklahoma State Auditor and Inspector to reflect the $5,952,259.26 in General Fund monies transferred to other funds as noted” it is the opinion of the Tulsa County District Attorney, statutory legal counsel to the Tulsa County Budget Board, that when the budget board approves an interfund transfer in a meeting convened in accordance with the Oklahoma Open Meeting Act, that approval constitutes a budget amendment duly adopted by the budget board in accordance with Oklahoma Statutes, Title 19, Section 1420. Those duly adopted budget amendments are filed in the office of the county clerk. Going forward the budget amendments will also be filed with the excise board and the State Auditor and Inspector.

With regard to the condition identified by the auditors as “The County’s procedures allow interfund transfers to be made and available for obligation prior to the Budget Board approving the interfund transfers” the County will implement a Budget Board approval process where no interfund transfers are made without prior Budget Board approval.

With regard to the condition identified by the auditor as “Various sources of revenue were transferred between funds and it could not be determined that the expenditure of those revenues were made for the purpose outlined in the statutes that govern them.” This condition has been noted and the County stands committed to researching the issue and finding the best practices, including the utilization of resources in the office of the State Auditor and Inspector to address our procedures.

Auditor Response: OSAI does not agree with the opinion of the Tulsa County District Attorney, that the budget is amended upon the Budget Board approving interfund transfers.

According to Title 19 O.S. § 1404, a budget is “a plan of financial operations for a fiscal year, including an estimate of proposed expenditures for given purposes and the proposed means for financing them.” Additionally, Title 19 O.S. § 1410 requires that a budget shall contain at minimum “actual revenues and expenditures for the immediate prior fiscal year; estimated actual revenues and expenditures for the current fiscal year; and estimated revenues and proposed expenditures for the budget year. Therefore, any amendment to a budget would too require, at a minimum, adjustments to the estimated actual revenues and expenditures for the current fiscal year and estimated revenues and proposed expenditures for the budget year.

When the Budget Board approves an interfund transfer, there is no formal amendment of the estimated actual revenues and expenditures for the current fiscal year or estimated revenues and proposed expenditures for the budget year; the Budget Board is simply approving the amendment of County’s financial records to reflect the transfers. The minutes of the Budget Board clearly state that the Budget Board is approving the appropriations related to the interfund transfers and there is no mention in the minutes of an amendment to the budget and therefore, no approval of such can be assumed.

Furthermore, when confirming the original, final, and actual amounts as noted in the County’s Budgetary Comparison Schedules, only the original budgeted amounts could be tied to the County’s budget. To confirm the final and actual budget amounts, OSAI tied this information back to financial records.
generated from the County Clerk’s bookkeeping system. This information detailed adjustments to expenditures categories but made no reference to adjustments to budgeted revenues.

**County Assessor:** The issues raised by OSAI have been of concern to me for many years. I have persistently spoken of these issues in the Budget Board meetings, in private with other Budget Board members, and with the State Auditor employees during scheduled meeting at the beginning and end of the yearly audits.

I am grateful that the Auditor’s Office has made its determination, and I look forward to supporting actions by the Tulsa County Budget Board to address these issues.

**County Sheriff:** I did not take office until April 2016. Although I am a Budget Board member, I was not aware or responsible for the transactions for which the finding is referencing. I know and understand my role and responsibility regarding the restricted revenue the Sheriff’s office receives and will make every effort to ensure these funds are maintained and spent in accordance with the statutes that govern them.

**Criteria:** Accountability and stewardship are the overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the County should comply with all aspects of the County Budget Act to ensure the budget that has been adopted and filed is a true representation of budgeted revenues and expenditures and appropriations, resulting from inter-funds transfers, are only made available for encumbrances after budget board approval. Furthermore, restricted revenues should only be spent for those purposes set out by the various statutes that govern them.

Title 19 O.S. § 1413(C) states in part, “…The budgets as adopted and filed with the excise board shall constitute an appropriation for each fund, subject to final approval of the county excise board as provided in this act, and the appropriation thus made shall not be used for any other purpose except as provided by law.”

Title 19 O.S. § 1418 states, “A county budget board may authorize transfers of any unencumbered and unexpended appropriation or any portion thereof from one expenditure category to another within the same department or from one department to another within the same fund, except that no appropriation for debt service or other appropriation required by law or resolution may be reduced below the minimums required. Interfund transfers may be made only as authorized by this act or as provided in the budget as adopted or amended according to Sections 10, 14, and 20 of this act.”

Title 19 O.S. § 1420 (B) states, “If at any time during the budget year it appears probable that revenues available will be insufficient to meet the amount appropriated, or that due to unforeseen emergencies there is temporarily insufficient money in a particular fund to meet the requirements of appropriation in the fund, the county budget board shall take such action as it deems necessary. For that purpose, it may amend the budget to reduce one or more appropriations or it may amend the budget to transfer money from one fund to another fund, but no appropriation for debt service may be reduced and no appropriation may be reduced by more than the amount of the unexpended and
unencumbered balance thereof. No transfer shall be made from the debt service fund to any other fund except as may be permitted by the terms of the bond issue or applicable law.

Finding 2016-2 – Inadequate Internal Controls and Noncompliance Over Disbursements

Condition: Per testwork performed, the following was noted:

- Of the fifty-four (54) General Fund purchase orders tested three (3) totaling $139,062.97 were not encumbered prior to the ordering or receiving of goods or services.
- Of the forty-four (44) Highway Fund purchase orders tested four (4) totaling $130,098.30 were not encumbered prior to the ordering or receiving of goods or services.
- Of the twenty-seven (27) Other Governmental Funds purchase orders tested nine (9) totaling $2,224,419.25 were not encumbered prior to the ordering and receiving of goods or services.
- $31,117.20 in fiscal year 2016 monies were used to pay for fiscal year 2015 expenditures as noted on Highway/Engineering P.O. 1602268.

Cause of Condition: Policies and procedures designed by state statute regarding the purchasing process are not always followed.

Effect of Condition: These conditions resulted in noncompliance with state statutes and could result in unrecorded transactions, undetected errors, misappropriation of funds, inaccurate records, and/or incomplete information.

Recommendation: OSAI recommends the County adhere to state purchasing guidelines. Purchase orders should be encumbered before goods or services are ordered.

Management Response:
Chairman of the Board of County Commissioners: I will inform BOCC Division Directors in Tulsa County and elected officials of this finding and the importance of encumbering purchase orders before goods or services are ordered.

District 1 County Commissioner: County Commissioners will discuss this finding and communicate with departments that report directly to the BOCC and the other elected officials and their offices. I will insist that our departments follow the appropriate procedure for encumbering purchase orders and receiving goods and services.

District 3 County Commissioner: I reviewed the finding and believe that the Board of County Commissioners will discuss the issue of encumbering purchase orders before ordering and receiving goods or services and require the BOCC departments to follow the correct procedure in the future. The
Board of County Commissioners will communicate to all departments and the other Elected Official Offices with regard to this issue.

**County Clerk:** We will remind the bookkeepers throughout the County that purchase orders should be encumbered before goods or services are ordered.

**County Sheriff:** The Sheriff’s office will emphasize the importance of encumbering funds prior to goods or services are ordered or received.

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

**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 2016-8 – Lack of Segregation of Duties - District Court Divisions (Repeat Finding)**

**Condition:** It was noted that asset custody, transaction authority, bookkeeping, and reconciliations were not properly segregated to ensure adequate internal control structure in each District Court Division and within the Court Fund.

Within the Criminal, Probate, Family/License, Juvenile and Small Claims Divisions of the Court Clerk’s office, one employee with each division often posts payments, issues receipts, verifies receipt of payment, balances the cash drawer, prepares the deposit ticket, takes the deposit to the Treasurer, and reconciles the account balance to the Treasurer with no indication of a review by a second person. Additionally, the Supervisors can delete multiple docket entries, delete entries created on previous dates, disburse funds by case, and delete cases within the software system.

**Cause of Condition:** Policies and procedures have not been designed and implemented to properly segregate deposit functions and reconciling functions in a manner to reduce risk.

**Effect of Condition:** A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

**Recommendation:** OSAI recommends the following key accounting functions within the divisions of the Court Clerk’s office be adequately segregated:

- Issuing receipts.
- Preparing/reviewing deposits.
- Administrative rights for voiding and deleting.
In addition, OSAI recommends establishing a system of internal controls to adequately protect the collections of the Court Clerk’s office, which include but are not limited to the following:

- Review processes to ensure accuracy.
- A daily log of all mailed receipts should be compiled in a manner as to reduce risk.

**Management Response:**
**Court Clerk:** The Court Clerk’s office will discuss with each department head the following proposed procedure:

- Use of a daily log, having a third person (someone who has not worked out of the cash drawer) sign off/verify the details of the deposit and balance of receipts.
- Suggested personnel to sign off would be to utilize the accounting department if no one in the department qualifies.

**Criteria:** Effective internal controls require that key functions within a process be adequately segregated to allow for prevention and detection of errors and possible misappropriation of funds.

**Finding 2016-9 – Inadequate Internal Controls Over Court Clerk District Court Fund (Repeat Finding)**

**Condition:** Per review of the June 30th District Court reconciliation for fiscal year 2016, we noted the following:

- The Court Clerk’s ending balance, per the Court Clerk’s supporting reports and records, is $1,275.27 more than the ending balance on the Treasurer’s general ledger.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure reconciliations performed by the Court Clerk are accurate.

**Effect of Condition:** These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

**Recommendation:** OSAI recommends that the Court Clerk reconcile the Court Clerk District Court Fund records to the Treasurer’s general ledger balance monthly, and these reconciliations be reviewed for accuracy and approved by someone other than the preparer.

**Management Response:**
**Court Clerk:** The Court Clerk’s beginning balance was reconciled with the County Treasurer but not with our Case Balance Summary Report. Although we have a variance due to the conversion of paper to computer, circa 1984-1988, we will continue to work on balancing with the Case Balance Summary. The amount of the variance had decreased since the last audit.
Auditor Response: The balance used in the reconciliation with the Treasurer should be the number noted on the Court Clerk’s supporting reports and records.

Criteria: Effective internal controls require management to design and properly implement procedures to ensure reconciliations are performed and prepared accurately, and all variances be identified and reviewed and approved by someone other than the preparer.

Finding 2016-11 – Inmate Trust Fund Bank Account Reconciliation Not Accurate (Repeat Finding)

Condition: All information presented on the bank reconciliations for the Tulsa County Inmate Trust Fund Bank Account cannot be substantiated. It appears that some amounts utilized as reconciling items may contain unidentified amounts and errors.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure financial records are maintained in a manner to provide accurate information for bank reconciliations being performed on the County’s Inmate Trust Fund Bank Account and to deter and detect fraud in a timely manner.

Effect of Condition: These conditions could result in unauthorized transactions, misappropriation of inmate funds, and the inability to deter or detect fraud within the Inmate Trust Fund Bank Account.

Recommendation: OSAI recommends management design and implement procedures to deter and detect fraud and to ensure financial records provide accurate information so that Inmate Trust Fund Account bank reconciliations can be relied on and substantiated. Additionally, all bank reconciliations should note indication of review and approval by someone other than the preparer.

Management Response:
County Sheriff: The Tulsa County Sheriff’s Office is waiting on the results from the forensic audit of the Inmate Trust Fund Checking Account. Once we receive direction from the forensic auditor, we will make the necessary changes to correct these issues.

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.

Finding 2016-12 – Lack of Internal Controls and Noncompliance Over Inmate Trust Fund (Repeat Finding)

Condition: Based on inquiry of the Sheriff’s staff and observation of records, we noted the following:

- Original receipts are not retained for voids.
- Inmate trust checks are issued for unauthorized expenditures.
- Records are not maintained for unclaimed funds.
• Checks are not always signed by two check signers.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate internal controls are in place to safeguard assets and to ensure compliance with state statutes.

Effect of Condition: These conditions resulted in noncompliance with state statutes, misappropriation of assets, unrecorded transactions, and errors that have gone undetected.

Recommendation: OSAI recommends management be aware of these conditions and implement policies and procedures to ensure:

• Original receipts are retained for all voids.
• Inmate Trust Fund expenditures are made only to reimburse an inmate upon being released from jail or to the Sheriff’s Commissary Fund.
• The Sheriff shall maintain records documenting unclaimed funds.
• Checks are manually signed by two check signers and check signing responsibilities be assigned to a limited number of personnel.

Management Response:
County Sheriff: In February of 2016, we added a cover to all receipt books that boldly state “IMPORTANT, PLEASE KEEP ALL COPIES OF VOIED RECEIPTS IN THE RECEIPT BOOK” to help ensure all voided receipts are retained. Effective immediately (December 2016), inmate trust checks will only be issued to the inmate upon release and/or the Commissary Account and we are currently adding additional checks signers to ensure that there are always two authorized check signers available to sign inmate trust checks. Additionally, we are waiting on the results from the forensic audit in order to know how to proceed on addressing the issue of unclaimed funds.

Criteria: To help ensure a proper accounting of funds, controls should be put in place to ensure the safeguarding and accuracy of collections, deposits, and expenditures.

Title 19 O.S. § 531(A) states in part, “…The Sheriff…may write checks to the Sheriff’s Commissary Account… and to the inmate from unencumbered balances due the inmate upon his or her discharge.”

Title 22 O.S. § 1325(F) states, “A sheriff's office having in its possession money or legal tender under the circumstances provided in subsection A of this section, prior to appropriating the same for deposit into a special fund, shall file an application in the district court of its county requesting the court to enter an order authorizing it to so appropriate said money for deposit in said special fund. Said application shall describe the money or legal tender, together with serial numbers, if any, the date the same came into the possession of the sheriff's office or campus police agency, and the name and address of the owner, if known. Upon filing, said application, which may be joined with an application as described in subsection C of this section, shall be set for hearing not less than ten (10) days nor more than twenty (20) days from the filing thereof, and notice of said hearing shall be given as provided in subsection D of this section. Such notice shall state that,
upon no one appearing to prove ownership to said money or legal tender, the same will be ordered by the court to be deposited in the special fund by the sheriff's office or campus police agency. Said notice may be combined with a notice to sell personal property as set forth in subsection D of this section. At the hearing, if no one appears to claim and prove ownership to said money or legal tender, the court shall order the same to be deposited by the sheriff's office or campus police agency in the special fund, as provided in subsection H of this section.”