

Pottawatomie County Financial Audits: Briefing Document (FY 2018-2023)

Integrity of the Game vs Economic Impact (Politics); The Oklahoma Business Plan

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This briefing document summarizes the key themes, important ideas, and facts presented in the State Auditor and Inspector's financial reports for Pottawatomie County, Oklahoma, spanning the fiscal years ended June 30, 2018, through June 30, 2023. These reports aim to promote "accountability and fiscal integrity in state and local government" and emphasize the State Auditor's independence in serving Oklahoma taxpayers (FY 2018, FY 2019).

1. Financial Reporting Basis:

Pottawatomie County prepares its financial statements on a **regulatory basis of accounting**, where amounts are recognized when cash is received or disbursed. This differs from Generally Accepted Accounting Principles (U.S. GAAP), which recognize revenues and expenditures based on when they are earned or incurred (FY 2018, p. 11; FY 2019, p. 10; FY 2020, p. 9; FY 2021, p. 8; FY 2022, p. 9; FY 2023, p. 9).

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**, exceeding the minimum requirement of presenting the general fund and other funds representing ten percent or greater of total county revenue (FY 2018, p. 11; FY 2019, p. 8; FY 2021, p. 8; FY 2022, p. 9; FY 2023, p. 9). The independent auditor consistently issues an **unmodified opinion on the regulatory basis financial statements** and an **adverse opinion on U.S. Generally Accepted Accounting Principles** (FY 2023, p. 1). This indicates that the financial statements are fairly presented under the regulatory basis but do not comply with U.S. GAAP.

2. County Officials and Structure:

The reports consistently list the key Pottawatomie County officials for each fiscal year, including the Board of County Commissioners (by district), County Assessor, County Clerk, County Sheriff, County Treasurer, Court Clerk, and District Attorney (FY 2018, p. i; FY 2019, p. i).

Pottawatomie County is a "subdivision of the State of Oklahoma created by the Oklahoma Constitution and regulated by Oklahoma Statutes" (FY 2018, p. 6; FY 2019, p. 6; FY 2020, p. 5; FY 2021, p. 5; FY 2022, p. 5; FY 2023, p. 5).

3. Fund Accounting:

The County utilizes fund accounting to track resources with specific restrictions. The **General Fund** is the primary operating fund. Numerous other funds exist for specific purposes, including: **Sales Tax Funds**: Dedicated to various entities like county roads and bridges, public safety, fire departments, emergency services, economic development, OSU Extension Center, soil conservation, free fair, senior citizens, school districts, and the District Attorney Family Justice Center (FY 2018, p. 7; FY 2019, p. 7; FY 2020, p. 6-7; FY 2021, p. 6; FY 2022, p. 6; FY 2023, p.

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6). A permanent 1% sales tax was approved in 2008 with specific allocation percentages (FY 2018, p. 13; FY 2023, p. 11).

Use Tax Fund: For capital improvements (FY 2018, p. 7; FY 2019, p. 7; FY 2020, p. 7; FY 2021, p. 6; FY 2022, p. 7; FY 2023, p. 7).

County Bridge and Road Improvement Fund & Restricted Highway Fund: For constructing and maintaining roads and bridges (FY 2018, p. 7; FY 2019, p. 7; FY 2020, p. 7; FY 2021, p. 6; FY 2022, p. 7; FY 2023, p. 7).

County Sinking Fund: For debt service (though often with a zero balance or planned transfer) (FY 2018, p. 7; FY 2019, p. 7; FY 2020, p. 7; FY 2021, p. 6; FY 2022, p. 7; FY 2023, p. 7).

Fee-Based Funds: Such as County Assessor Fees, County Clerk Lien Fee, County Treasurer Mortgage Tax, County Clerk Preservation Fee, Sheriff Service Fee, etc., with Statutory restrictions on their use (FY 2018, p. 8-9; FY 2019, p. 7-9; FY 2020, p. 8; FY 2021, p. 6-7; FY 2022, p. 7; FY 2023, p. 7).

Grant Funds: For various purposes, often with specific restrictions (e.g., Community Service Grant, Community Development Block Grant, Law Enforcement Grant, VAWA Recovery Act, VOCA, COVID Aid and Relief, American Rescue Plan Act) (FY 2018, p. 7-9; FY 2019, p. 8-9; FY 2020, p. 8-9; FY 2021, p. 7; FY 2022, p. 8; FY 2023, p. 8).

Building Maintenance Funds: For specific county buildings (e.g., Courthouse Renovation, Acme Road Building Maintenance, Carter Hall Building Maintenance, Pottawatomie County South Annex Building) (FY 2018, p. 7-9; FY 2019, p. 8; FY 2020, p. 8-9).

911 System Funds: For operating emergency 911 services (both wired and wireless) (FY 2018, p. 9; FY 2019, p. 8; FY 2020, p. 8; FY 2021, p. 7).

School District Sales Tax Funds: Numerous funds account for sales tax collected for individual school districts within the county (FY 2018, p. 9-10; FY 2019, p. 9; FY 2020, p. 7).

4. Cash Management and Investments:

The County Treasurer is authorized to make investments, which must be in nonnegotiable certificates of deposit backed by the full faith and credit of the U.S. Government, Oklahoma State Government, fully collateralized, or fully insured (FY 2018, p. 12; FY 2019, p. 10; FY 2020, p. 9; FY 2021, p. 8; FY 2022, p. 9; FY 2023, p. 9).

State statutes require financial institutions holding county funds to deposit collateral securities (FY 2019, p. 10; FY 2020, p. 9; FY 2021, p. 8; FY 2022, p. 9; FY 2023, p. 9).

A finding in the FY 2018 audit recommended the County Treasurer implement a system of internal controls and adopt a formal investment policy to ensure compliance with state statutes (FY 2018, p. 24). Management indicated they would take corrective action.

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5. Other Key Financial Matters:

Ad Valorem Tax: Property tax is levied annually on October 1 based on the assessed value as of January 1. Taxes are due November 1 but can be paid in two installments (FY 2021, p. 9; FY 2022, p. 10; FY 2023, p. 10). The County is subject to ad valorem tax abatements for qualifying manufacturing concerns (FY 2018, p. 13).

Pension Plan (OPERS): The County contributes to the Oklahoma Public Employees Retirement Plan, a cost-sharing, multiple-employer defined benefit plan (FY 2019, p. 12; FY 2020, p. 11; FY 2021, p. 9; FY 2022, p. 10; FY 2023, p. 11).

Other Post-Employment Benefits (OPEB): OPERS provides limited post-retirement health care benefits, funded on a pay-as-you-go basis. Specific county-level OPEB information is not readily available (FY 2019, p. 12; FY 2020, p. 11; FY 2021, p. 9; FY 2022, p. 10; FY 2023, p. 11).

Contingent Liabilities: Grant funds received are subject to audit and adjustment by grantor agencies. The outcome of any potential lawsuits is undeterminable (FY 2019, p. 12; FY 2020, p. 11; FY 2021, p. 9; FY 2022, p. 10; FY 2023, p. 11).

Budgetary Practices: Comparative schedules of receipts, expenditures, and changes in cash balances for the General Fund and County Health Department Fund are presented on a budgetary basis, which may differ from the regulatory basis due to encumbrances and outstanding warrants (FY 2018, p. 18-19; FY 2019, p. 17-18; FY 2020, p. 14, 16; FY 2021, p. 12-13; FY 2022, p. 13-14).

6. Internal Control and Audit Findings:

Lack of County-Wide Internal Controls: This has been a recurring significant finding across multiple audit years (Finding 2011-001 and subsequent years). The audits consistently reference the GAO Standards definition of internal control: "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" (FY 2018, p. 23; FY 2019, p. 22; FY 2022, p. 19; FY 2023, p. 26, 30).

Specific concerns include the lack of designed controls regarding **Risk Management and Monitoring** (FY 2019, p. 22; FY 2021, p. 33; FY 2022, p. 22; FY 2023, p. 46). Management has consistently stated that corrective action has not been taken on this overarching issue.

Lack of Internal Controls and Noncompliance Over the Disbursement Process: Findings have noted issues with purchase order documentation (lack of approval dates, missing receiving reports), blanket purchase order certifications, untimely encumbrances, and insufficient BOCC signatures. This finding was reported as "Fully Corrected" in the FY 2021 summary (FY 2021, p. 33).

Lack of County-Wide Internal Controls Over Major Federal Programs (BIA & FEMA Grants): Findings in prior years (FY 2011, FY 2014) identified a lack of procedures to ensure compliance

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with federal grant requirements. Management has indicated they do not feel further action is warranted due to the passage of time and lack of follow-up from the federal agencies (FY 2021, p. 34).

Deficiencies in Fixed Asset Management: The FY 2022 and FY 2023 audits highlighted a lack of compliance with 19 O.S. § 178.2 regarding the filing of a yearly updated fixed asset list with the County Clerk by various offices. Additionally, issues were noted with the proper identification and labeling of fixed assets and discrepancies in consumable inventory counts at the County Commissioner districts (FY 2022, p. 20-21; FY 2023, p. 36-37, 39). Management provided responses indicating they would take corrective action, including performing visual verifications, ensuring proper documentation and labeling (FY 2022, p. 21; FY 2023, p. 39). The FY 2023 audit also referenced 19 O.S. § 1502(B)(1) and 69 O.S. § 645 regarding uniform identification and marking of county-owned equipment (FY 2023, p. 40).

7. Significant Changes and Trends:

Increased Oversight Focus: The recurring emphasis on internal control deficiencies, particularly the lack of county-wide controls, suggests an ongoing area of concern for the State Auditor.

Growth in Dedicated Funds: The consistent existence and specific purpose of numerous sales tax and fee-based funds indicate a dedicated revenue stream for various county operations and entities.

Impact of Federal Funding: The inclusion of various federal grant funds (VAWA, VOCA, COVID-related aid) highlights the reliance on and management of these external resources.

Fixed Asset Management as a Focus: The findings in the more recent audits (FY 2022 and FY 2023) indicate a heightened scrutiny of the County's processes for managing and accounting for its assets.