

**HUGHES COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

November 21, 2006

TO THE CITIZENS OF
HUGHES COUNTY, OKLAHOMA

Transmitted herewith is the audit of Hughes County, Oklahoma, for the fiscal year ended June 30, 2005. 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.

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

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahan".

JEFF A. McMAHAN
State Auditor and Inspector

**HUGHES COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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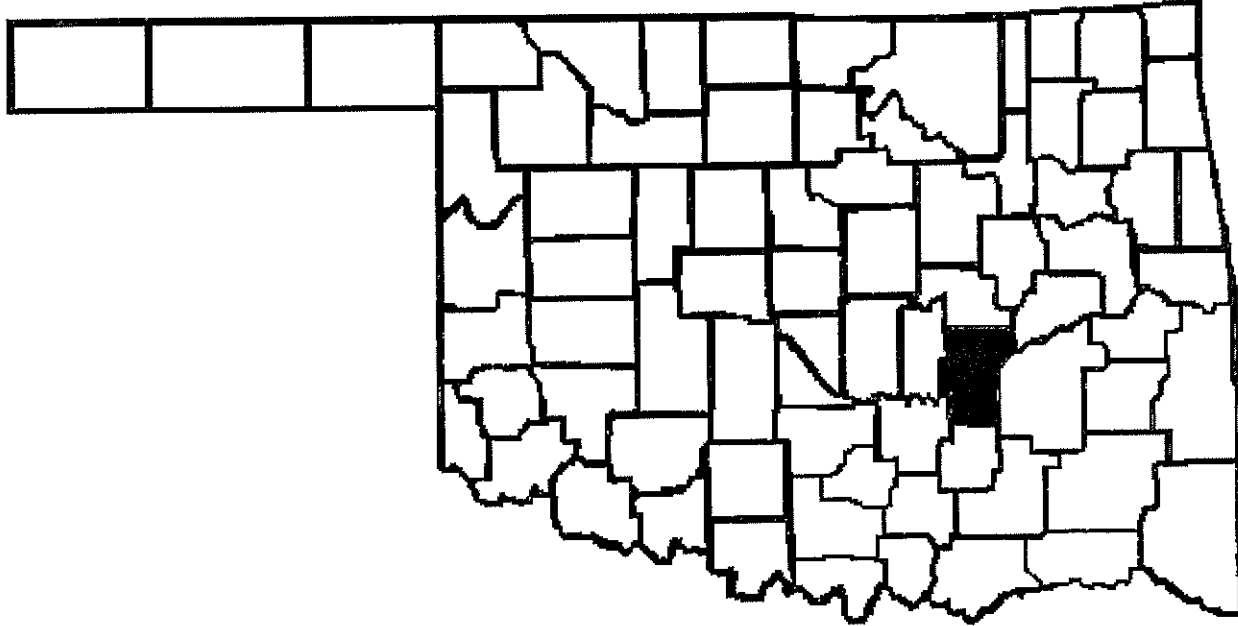
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**HUGHES COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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REPORT TO THE CITIZENS
OF
HUGHES COUNTY, OKLAHOMA



Located in southeastern Oklahoma, Hughes County was created at statehood and named for W.C. Hughes, a member of the Oklahoma Constitutional Convention. Holdenville is the county seat.

Holdenville and Wetumka lakes provide recreational opportunities for the county, while other areas are available for hunting deer, dove, quail, duck, rabbit, and squirrel.

Annual events of interest include the IRA Rodeo and the Hog Wild Days in Holdenville, Sorghum Days in Wewoka, and Suckers Days in Wetumka.

The Hughes County Historical Society in Holdenville serves the area. For more information, call the county clerk's office at 405-379-5487.

County Seat – Holdenville

Area – 814.64 Square Miles

County Population – 14,016
(2003 est.)

Farms – 955

Land in Farms – 374,192 Acres

Primary Source: Oklahoma Almanac 2005-2006

See independent auditor's report.

**HUGHES COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

COUNTY ASSESSOR

Kathi D. Mask
(D) Holdenville

The County Assessor has the responsibility to appraise and assess the real and personal property within the county for the purpose of ad valorem taxation. Also, the County Assessor is required to compute the ad valorem taxes due on all taxable property. The County Assessor appraises all the taxable real and personal property according to its fair cash value for which the property is actually being used as of January 1 of the taxable year at the percentages provided for in Article 10, § 8 of the Oklahoma Constitution.

The County Assessor is required to build and maintain permanent records of the taxable real property and tax exempt real property within the county. Information entered on each record includes the property's legal description, owner's name and address, and the homestead exemption status of the owner.

COUNTY CLERK

Cindy Barksdale (Prior to August 2004)
(D) Holdenville
Joquita Walton (August 2004 to present)
(D) Holdenville

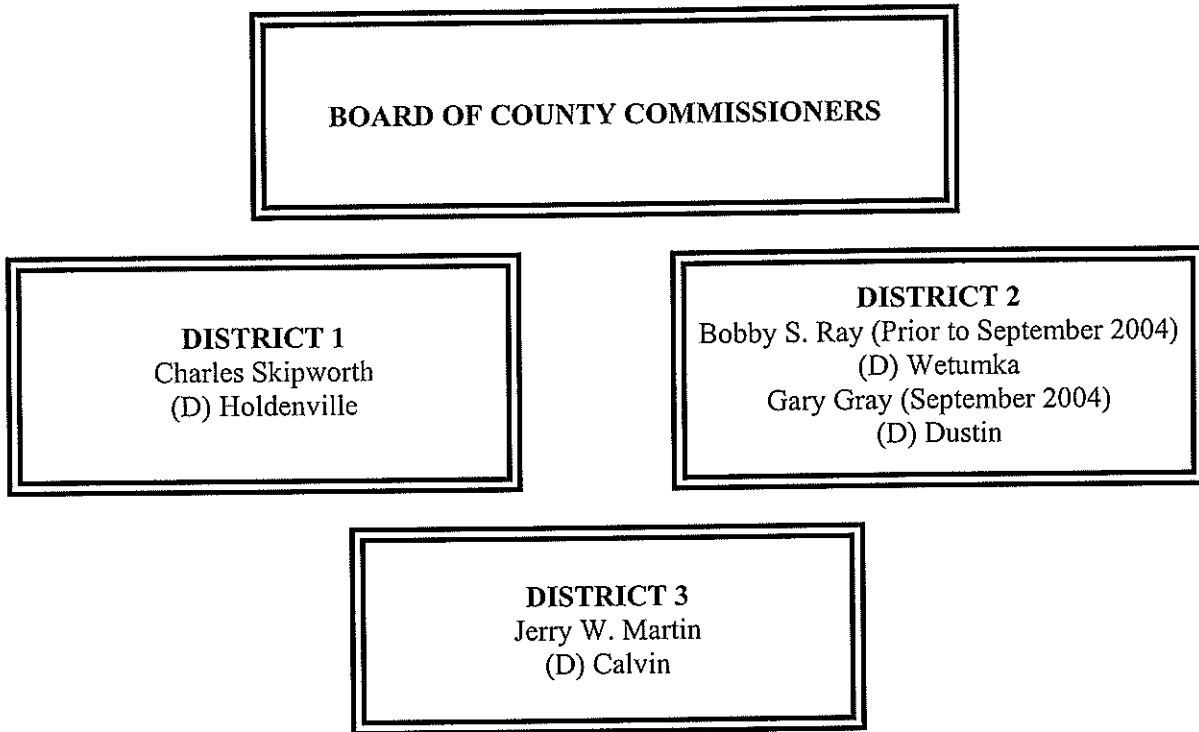
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

The County Clerk reviews all the claims for payment of goods and services purchased or contracted by the county, and prepares the proper warrants for payment of those goods and services and the county payroll. The County Clerk, or his or her designated deputy, serves as the purchasing agent for the county. This system is a means to ensure the public that tax dollars are being spent appropriately.

Various records within the different county offices are classified as "open records." As such, they can be reviewed and mechanically copied by the public.

See independent auditor's report.

**HUGHES COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**



The Board of County Commissioners is the chief administrative body for the county. County Commissioners are also responsible for maintaining and constructing the county roads and bridges.

The Commissioners must act as a Board when entering into contracts or other agreements affecting the county's welfare. Thus, actions taken by the Board are voted on and approved by a majority of the Commissioners. The Board of County Commissioners' business meetings are open to the public.

As the county's chief administrative body, the three County Commissioners must make major financial decisions and transactions. The Board has the official duty to ensure the fiscal responsibility of the other county officers who handle county funds. The review and approval procedures empowered to the Board of County Commissioners are a means to provide the public with a fiscally efficient system of county government.

See independent auditor's report.

**HUGHES COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

COUNTY SHERIFF
Houston Yeager
(D) Holdenville

The County Sheriff is responsible for preserving the peace and protecting life and property within the county's jurisdiction. As the county's chief law enforcement officer, the Sheriff has the power and authority to suppress all unlawful disturbances, to apprehend and secure persons charged with felony or breach of peace, and to operate the county jail.

The County Sheriff has the responsibility of serving warrants and processing papers ordered by the District Court.

COUNTY TREASURER
Bobby Smith
(D) Holdenville

All collections by county government from ad valorem taxes and other sources are deposited with the County Treasurer. The County Treasurer collects ad valorem taxes for the county and its political subdivisions. The County Treasurer is authorized to issue delinquent personal property tax warrants and to impose tax liens on real property for delinquent taxes.

To account for county collections and disbursements, the County Treasurer is required to maintain an accurate record of all the monies received and disbursed. The State Auditor and Inspector's Office prescribes all the forms used by the County Treasurer, and at least twice a year inspects the County Treasurer's accounts.

See independent auditor's report.

**HUGHES COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

COURT CLERK
Sandy Moss
(D) Holdenville

The Court Clerk has the primary responsibility to record, file, and maintain as permanent records the proceedings of the District Court.

Court proceedings are recorded in the appropriate journal or record docket. All the court proceedings are public information except those related to juvenile, guardianship, adoption, and mental health cases.

The Court Clerk issues marriage licenses, passports, notary certificates, beer and pool hall licenses, and private process server licenses.

Monies from the court fund are identified for distribution by the Court Clerk to the appropriate units of county and state government. Court Clerks use forms and follow procedures prescribed by the Court Administrator's Office, the Oklahoma Supreme Court, and the State Auditor and Inspector.

DISTRICT ATTORNEY
William N. Peterson
(D) Ada

As the chief attorney for county government, the District Attorney acts as the legal advisor to the county officers on matters related to their duties. The District Attorney represents the county in civil litigation. County officials may call upon the District Attorney to clarify a law or request an official interpretation from the Attorney General.

**HUGHES COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

ELECTION BOARD SECRETARY

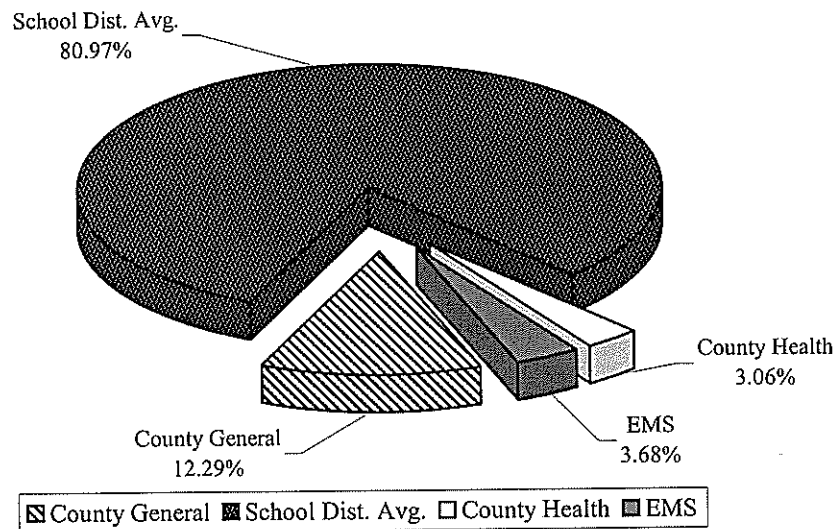
Brandy West
(D) Holdenville

The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within the county.

To finance the operation of the County Election Board, the County Excise Board must appropriate sufficient funds annually. The state and counties split the election costs, but counties must pay for any county elections not held concurrently with state elections.

**HUGHES COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



County-Wide Millages		School District Millages							
Co. General	10.39			Gen.	Bldg.	Skg.	Career Tech	Common	Total
County Health	2.59	Moss	I-1	36.15	5.26	2.67	5.23	4.15	53.46
EMS	3.11	Wetumka	I-5	36.41	5.20	25.60	5.23	4.15	76.59
		Dustin	I-9	36.80	5.26	14.82	5.23	4.15	66.26
		Holdenville	I-35	37.20	5.31		5.23	4.15	51.89
		Calvin	I-48	36.58	5.22	11.53	12.32	4.15	69.80
		Stuart	I-54	35.46	5.06	4.16	12.32	4.15	61.15
		Allen	J-1	35.98	5.14	12.17	12.29	4.15	69.73
		Wewoka	J-2	47.60	6.80	28.03	15.90	4.15	102.48
		Sasakwa	J-10	36.83	5.26	12.68	12.29	4.15	71.21
		Butner	J-15	37.09	5.30	18.02	15.90	4.15	80.46
		Weleetka	J-31	35.62	5.09		5.23	4.15	50.09

See independent auditor's report.

**HUGHES COUNTY, OKLAHOMA
COMPUTATION OF LEGAL DEBT MARGIN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

Total net assessed value as of January 1, 2004		<u>\$ 78,090,443</u>
Debt limit - 5% of total assessed value		3,904,522
Total bonds outstanding	-	
Total judgments outstanding	-	
Less cash in sinking fund	<u>1,232</u>	<u>-</u>
Legal debt margin		<u>\$ 3,904,522</u>

See independent auditor's report.

**HUGHES COUNTY, OKLAHOMA
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
VALUE AND NET BONDED DEBT PER CAPITA
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

	2005
Estimated population	14,016
Net assessed value as of January 1, 2004	\$ 78,090,443
Gross bonded debt	-
Less available sinking fund cash balance	1,232
Net bonded debt	\$ -
Ratio of net bonded debt to assessed value	0.00%
Net bonded debt per capita	\$ -

See independent auditor's report.

**HUGHES COUNTY, OKLAHOMA
ASSESSED VALUE OF PROPERTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

<u>Valuation Date</u>	<u>Personal</u>	<u>Public Service</u>	<u>Real Estate</u>	<u>Homestead Exemption</u>	<u>Net Value</u>	<u>Estimated Fair Market Value</u>
1/1/2004	\$12,581,661	\$36,621,890	\$32,312,207	\$3,425,315	\$78,090,443	\$568,396,926

See independent auditor's report.

FINANCIAL SECTION



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

Independent Auditor's Report

TO THE OFFICERS OF
HUGHES COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Hughes County, Oklahoma, as of and for the year ended June 30, 2005, listed in the table of contents as the basic financial statement. This financial statement is the responsibility of Hughes County's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. Oklahoma Statutes, in addition to audit responsibilities, assign other responsibilities to the State Auditor and Inspector's Office. Those responsibilities include providing various information technology (IT) support for county government.

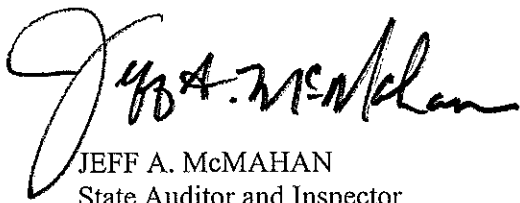
As described in Note 1, this financial statement was prepared using accounting practices prescribed or permitted by Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Hughes County as of June 30, 2005, or changes in its financial position for the year then ended.

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 of Hughes County, for the year ended June 30, 2005, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2006, on our consideration of Hughes 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the combined total of all funds within the basic financial statement taken as a whole. The combining information is presented for purposes of additional analysis rather than to present the receipts, disbursements, and cash balances of the individual funds. Also, the other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the basic financial statement. Finally, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statement. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statement taken as a whole. The information listed in the table of contents under Introductory Section has not been audited by us, and accordingly, we express no opinion on it.



JEFF A. McMAHAN
State Auditor and Inspector

September 11, 2006

Basic Financial Statement

**HUGHES COUNTY, OKLAHOMA
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Beginning Cash Balances July 1, 2004	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2005
Combining Information:				
County General Fund	\$ 189,390	\$ 1,113,398	\$ 1,015,535	\$ 287,253
T-Highway	890,935	3,306,640	3,601,014	596,561
Resale Property	39,510	77,216	28,687	88,039
County Health	416,733	215,282	262,357	369,658
M&M Lien Fee	34,037	46,544	18,050	62,531
Mortgage Certification Fee	13,912	3,310	3,022	14,200
Sheriff's Fees	9,817	47,756	45,727	11,846
Sheriff's Special Fund	114,038	72,504	102,547	83,995
CMPC-03 Special Projects	7,503		7,452	51
Yeager Fire Department		25,447	25,447	
County Assessor's Fund	2,894	2,010	755	4,149
Community Service Sentencing Program	2,631			2,631
Teen Court	151			151
Workforce WIA Grant	1,261			1,261
County Clerk DPA	48,350	54,610	42,226	60,734
Trash Cop	189			189
Trash Cop Reward	310			310
Department of Justice Comp	10,267			10,267
Free Fair	5,475	1,300	400	6,375
Family Resources Center Grant	268			268
Family Resources Cash Fund	640			640
Industrial Development Authority	18,213		17,613	600
Reap Grant Stuart FD	25,000		25,000	
Drug Court Byrne Grant		4,200	2,100	2,100
COPS Fast	1,091			1,091
COPS SRO	1,115	125,553	119,716	6,952
Civil Defense Cash Fund	1,216	320		1,536
Civil Defense Grant	1,562		1,305	257
Non Comm. Building Grant		30,000	30,000	
CDBG 10501		47,600	47,575	25
Graduated Sanction	139	11,724	11,550	313
EMS Reap Grant		25,007	25,007	
Emergency 911	107,580	44,730	48,063	104,247
County Sinking	1,232			1,232
Combined Total--All County Funds	\$ 1,945,459	\$ 5,255,151	\$ 5,481,148	\$ 1,719,462

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

**HUGHES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Counties were created by the Constitution of Oklahoma. One county officer is appointed; however, most county officers are locally elected by their constituents. All county powers are delegated by the state.

The accompanying basic financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds of Hughes County, Oklahoma. The funds presented as line items are not a part of the basic financial statement, but have been included as supplementary information within the basic financial statement. These separate funds are established by statute, and their operations are under the control of the County officials. 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. The other funds presented account for financial resources whose use is restricted for specified purposes.

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 funds included as supplementary information within the financial statement:

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

T-Highway - accounts for state, local and miscellaneous receipts and disbursements for the purpose of constructing and maintaining county roads and bridges.

Resale Property - accounts for the collection of interest and penalties on delinquent taxes and the disposition of same as restricted by statute.

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

M&M Lien Fee - accounts for lien collections and disbursements as restricted by statute.

Mortgage Certification Fee - accounts for the collection of fees by the Treasurer for mortgage tax certificates and the disbursement of the funds as restricted by statutes.

Sheriff's Fees - accounts for the collection and disbursement of sheriff process service fees as restricted by statute.

**HUGHES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Sheriff's Special Fund – accounts for the monies received from the State of Oklahoma for the boarding and feeding of DOC prisoners and for service fees received for transportation of inmates and juvenile.

CMPC-03 Special Projects – accounts for federal grant funds passed through the Oklahoma Department of Civil Emergency Management to be used for state and local supplemental planning and performance.

Yeager Fire Department – accounts for grant funds received and disbursements are restricted by the grant agreement.

County Assessor's Fund – accounts for the collection of fees for copies restricted by state statute.

Community Service Sentencing Program – accounts for the collection of funding through the State Department of Corrections for administrative expenses and supervision of offenders.

Teen Court – accounts for the federal grant funds for the operation of a juvenile court.

Workforce WIA Grant – accounts for funds received from Oklahoma Employment Security Commission for the salary and equipment for local workforce system coordinator.

County Clerk DPA – accounts for fees collected for instruments filed in the Registrar of Deeds as restricted by statute for preservation of records.

Trash Cop – accounts for grant funds received from the State of Oklahoma for the enforcement of trash and litter laws.

Trash Cop Reward – accounts for fines collected for illegal dumping and is disbursed as rewards for information on illegal dumping.

Department of Justice Comp – accounts for grant monies received from the U.S. Department of Justice Local Law Enforcement Block Grant Program used for the Sheriff's office.

Free Fair – accounts for rental revenues from the fair park and is used for the maintenance and operation of the fair park.

Family Resources Center Grant – accounts for the federal funds to be used for the prevention of domestic violence.

Family Resources Cash Fund – accounts for the donations to be used for the prevention of domestic violence.

**HUGHES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Industrial Development Authority – accounts for funds held in trust for expenditures for the renovations to an industrial building in Wetumka.

Reap Grant Stuart FD – accounts for state grants for the purpose of fire equipment for Stuart Rural Fire Department.

Drug Court Byrne Grant – accounts for federal funds passed through the District Attorney’s Council and disbursed as restricted by the grant agreement.

COPS Fast – accounts for grant monies received from the U.S. Department of Justice Community Oriented Policing Services Program used for deputies’ salaries in the Sheriff’s office.

COPS SRO – accounts for grant monies received from the U.S. Department of Justice Community Oriented Policing Services Program used for deputies’ salaries in the Sheriff’s office.

Civil Defense Cash Fund – accounts for the receipt and disbursement of funds from state and local governments for civil defense purposes.

Civil Defense Grant – accounts for federal grant funds passed through the Oklahoma Department of Civil Emergency Management to be used for state and local supplemental planning.

Non Comm. Building Grant – accounts for grant funds received and disbursements are restricted by the grant agreement.

CDBG 10501 – accounts for the federal funds passed through the Oklahoma Department of Commerce to be used for the construction of a county barn.

Graduated Sanction – accounts for federal funds received from the Office of Juvenile Affairs to be used for the supervision of juveniles.

EMS REAP Grant – accounts for grant funds received and disbursements are restricted by the grant agreement.

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

County Sinking – accounts for the payment of interest and principal on the matured portion of long-term bonded debt and civil judgments.

**HUGHES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including emergency medical districts, 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.

C. Basis of Accounting

The basic 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 cash basis financial presentation is not a comprehensive measure of economic condition or changes therein.

D. Budget

Under current Oklahoma Statutes, the general fund and the county health department fund are the only funds required to adopt a formal budget. On or before May 31 of each year, each officer or department head submits an estimate of needs (budget) to the governing body. The budget is approved by fund, office, or department and object. Within weeks, the County Budget Board may approve changes of appropriations within the fund by office or department and object.

For the highway funds and other funds, which are not required to adopt a formal budget, appropriations are made on a monthly basis, according to the funds then available.

E. Cash

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).

**HUGHES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

F. Investments

The County Treasurer has been authorized by the County's governing board to make investments. By statute (62 O.S. § 348.1 and § 348.3), the following types of investments are allowed:

- U.S. Government obligations
- Certificates of deposit
- Savings accounts
- G.O. bonds issued by counties, municipalities or school districts
- Money judgments against counties, municipalities or school districts
- Bonds and revenue notes issued by a public trust when the beneficiary of the trust is a county, municipality or school district
- Negotiable certificates of deposit
- Prime bankers acceptance which are eligible for purchase by the Federal Reserve System
- Prime commercial paper with a maturity of 180 days or less
- Repurchase agreements
- Money market funds regulated by the Securities and Exchange Commission and which investments consist of the above-mentioned types of investments

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured.

G. Compensated Absences

Vacation benefits are earned by the employee during the year. Employees with service from 1 to 10 years earn 10 days per year. Employees with service years exceeding 10 years earn 15 days per year. An employee may accumulate up to 5 days. Vacation leave is accrued monthly. Upon separation, an employee is paid for accrued vacation leave.

Sick leave benefits are accrued at the rate of 10 hours per month and employees may accumulate up to 30 days. Sick leave is not paid upon termination.

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."

**HUGHES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The assessed property value as of January 1, 2004, was approximately \$78,090,443.

Per Article 10, § 8A, with the repeal of personal property tax, the millages with the adjustment factor are 10.39 mills for general fund operations, 2.59 mills for county health department, and 3.11 mills for emergency medical service. In addition, the County collects the ad valorem taxes assessed by cities and towns and school districts and remits the ad valorem taxes collected to the appropriate taxing units.

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. Unpaid real property taxes become a lien upon said property on October 1 of each year.

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

Current year tax collections for the year ended June 30, 2005, were approximately 97.20 percent of the tax levy.

3. Fuel Tax

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the county highway fund.

4. Risk Management

The County is exposed to the various risks of loss shown in the following table:

Types of Loss	Method of Management	Risk of Loss Retained
General Liability <ul style="list-style-type: none"> • Torts • Errors and Omissions • Law Enforcement Officers Liability • Vehicle 	The County participates in a public entity risk pool: Association of County Commissioners of Oklahoma-Self-Insurance Group. (See ACCO-SIG.)	If claims exceed the authorized deductibles, the County could have to pay its share of any pool deficit. A judgment could be assessed for claims in excess of the pool's limits.
Physical Plant <ul style="list-style-type: none"> • Theft • Damage to Assets • Natural Disasters 		

**HUGHES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Types of Loss	Method of Management	Risk of Loss Retained
Workers' Compensation <ul style="list-style-type: none"> • Employees' Injuries 	The County carries commercial insurance.	A judgment could be assessed for claims in excess of coverage.
Employee <ul style="list-style-type: none"> • Medical • Disability • Dental • Life 	The County carries commercial insurance.	None

ACCO-SIG - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating county chooses a \$10,000, \$25,000, or a \$50,000 deductible amount. The County has chosen a \$10,000 deductible for each insured event as stated in the County's "Certificate of Participation." The risk pool will pay legitimate claims in excess of the deductible amount for replacement value up to \$100,000 for property, and up to \$500,000 for general liability. The pool has acquired commercial reinsurance in the amount of \$1,000,000 to cover claims that exceed the pool's risk retention limits. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

Commercial Insurance - The County obtains commercial insurance coverage to pay legitimate workers' compensation claims and employees' insurance. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

5. Long-term Obligations

Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/or the equipment vendors or their assignees pursuant to the provisions of 69 O.S. § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest free. However, starting in January 1997, ODOT began charging a one-time fee of 3% on all pieces of machinery subsequently acquired.

6. 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

**HUGHES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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. County employees are required to contribute between 3.5% and 8.5% of earned compensation. The County contributes between 5.0% and 10.0% of earned compensation. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributes 10.0% of earned compensation for elected officials. The County's contributions to the Plan for the years ending June 30, 2005, 2004, and 2003 were \$155,842, \$150,374, and \$145,035, respectively, equal to the required contributions for each year.

7. Other Post Employment Benefits (OPEB)

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

8. 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.

OTHER SUPPLEMENTARY INFORMATION

HUGHES COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 189,390	\$ 189,390	\$ 189,390	\$ -
Less: Prior Year Outstanding Warrants	(42,176)	(42,176)	(42,176)	
Less: Prior Year Encumbrances	(4,519)	(4,519)	(3,473)	1,046
Beginning Cash Balances, Budgetary Basis	<u>142,695</u>	<u>142,695</u>	<u>143,741</u>	<u>1,046</u>
Receipts:				
Ad Valorem Taxes	811,360	811,360	805,851	(5,509)
Charges for Services	93,500	93,500	143,140	49,640
Intergovernmental Revenues	120,896	120,896	138,243	17,347
Miscellaneous Revenues	56,548	88,822	26,164	(62,658)
Total Receipts, Budgetary Basis	<u>1,082,304</u>	<u>1,114,578</u>	<u>1,113,398</u>	<u>(1,180)</u>
Expenditures:				
District Attorney	1,200	1,468	1,468	
Total District Attorney	<u>1,200</u>	<u>1,468</u>	<u>1,468</u>	<u>-</u>
County Sheriff	290,000	290,000	289,703	297
Total County Sheriff	<u>290,000</u>	<u>290,000</u>	<u>289,703</u>	<u>297</u>
County Treasurer	83,000	85,900	84,119	1,781
Capital Outlay	5,000	2,100	2,100	
Total County Treasurer	<u>88,000</u>	<u>88,000</u>	<u>86,219</u>	<u>1,781</u>
County Commissioners	22,661	7,050	6,962	88
Total County Commissioners	<u>22,661</u>	<u>7,050</u>	<u>6,962</u>	<u>88</u>
OSU Extension	13,299	6,249	5,741	508
Capital Outlay	1	1		1
Total OSU Extension	<u>13,300</u>	<u>6,250</u>	<u>5,741</u>	<u>509</u>
County Clerk	111,037	111,037	106,404	4,633
Total County Clerk	<u>111,037</u>	<u>111,037</u>	<u>106,404</u>	<u>4,633</u>
Court Clerk	74,335	74,335	71,983	2,352
Total Court Clerk	<u>74,335</u>	<u>74,335</u>	<u>71,983</u>	<u>2,352</u>

continued on next page

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

HUGHES COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

continued from previous page

	Original Budget	Final Budget	Actual	Variance
County Assessor	47,700	47,700	46,780	920
Total County Assessor	47,700	47,700	46,780	920
Revaluation of Real Property	93,540	93,540	87,342	6,198
Total Revaluation of Real Property	93,540	93,540	87,342	6,198
Juvenile Shelter Bureau	7,000	7,000	2,550	4,450
Total Juvenile Shelter Bureau	7,000	7,000	2,550	4,450
General Government	268,290	270,748	164,072	106,676
Capital Outlay	10,000	10,000	2,993	7,007
Total General Government	278,290	280,748	167,065	113,683
Excise-Equalization Board	3,726	3,726	2,352	1,374
Total Excise-Equalization Board	3,726	3,726	2,352	1,374
County Election Board	58,220	58,220	57,589	631
Total County Election Board	58,220	58,220	57,589	631
Insurance		49,809	49,809	
Total Insurance	-	49,809	49,809	-
Civil Defense		2,400	1,349	1,051
Total Civil Defense	-	2,400	1,349	1,051
County Audit Budget Account	14,760	14,760	14,760	
Total County Audit Budget Account	14,760	14,760	14,760	-
Free Fair Budget	10,000	10,000	9,986	14
Total Free Fair Budget	10,000	10,000	9,986	14

continued on next page

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

HUGHES COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

continued from previous page

	Original Budget	Final Budget	Actual	Variance
Other Uses	108,230	108,230		108,230
Total Other Uses	<u>108,230</u>	<u>108,230</u>	-	<u>108,230</u>
Provision for Interest on Warrants	3,000	3,000	2,768	232
Total Expenditures, Budgetary Basis	<u>1,224,999</u>	<u>1,257,273</u>	<u>1,010,830</u>	<u>246,443</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	246,309	<u>\$ 246,309</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			4,078	
Add: Current Year Outstanding Warrants			36,866	
Ending Cash Balance			<u>\$ 287,253</u>	

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

**HUGHES COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY HEALTH DEPARTMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	County Health Department Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 416,733	\$ 416,733	\$ 416,733	\$ -
Less: Prior Year Outstanding Warrants	(41,623)	(41,623)	(41,623)	
Less: Prior Year Encumbrances	(1,397)	(1,397)	(1,255)	142
Beginning Cash Balances, Budgetary Basis	<u>373,713</u>	<u>373,713</u>	<u>373,855</u>	<u>142</u>
Receipts:				
Ad Valorem Taxes	183,867	183,867	199,662	15,795
Charges for Services		8,578	8,578	
Miscellaneous Revenues			7,042	7,042
Total Receipts, Budgetary Basis	<u>183,867</u>	<u>192,445</u>	<u>215,282</u>	<u>22,837</u>
Expenditures:				
Health and Welfare	395,000	368,578	198,775	169,803
Capital Outlay	162,580	197,580	38,832	158,748
Total Expenditures, Budgetary Basis	<u>557,580</u>	<u>566,158</u>	<u>237,607</u>	<u>328,551</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	351,530	<u>\$ 351,530</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			1,627	
Add: Current Year Outstanding Warrants			16,501	
Ending Cash Balance			<u>\$ 369,658</u>	

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

**HUGHES COUNTY, OKLAHOMA
DETAILED SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES—SINKING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Beginning Cash Balance	<u>\$ 1,232</u>
Receipts:	
Total Receipts	<u>-</u>
Disbursements:	
Total Disbursements	<u>-</u>
Ending Cash Balance	<u><u>\$ 1,232</u></u>

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

**HUGHES COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. Budgetary Schedules

The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis, for the General Fund and the County Health Department 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 Combined 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.

2. Sinking Fund Schedule

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

**HUGHES COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed Through State Department of Commerce:			
Community Development Block Grant/State's Program	14.228	10501 CDBG 02	\$ 47,600
Total U.S. Department of Housing and Urban Development			<u>47,600</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Passed Through Office of Juvenile Affairs:			
Public Safety Partnership and Community Policing Grants	16.710	2003 SHWX0051 (COPS)	121,632
Juvenile Accountability Incentive Block Grants	16.523	03-JAIBG-24	2,455
Passed Through District Attorney's Council:			
Edward Byrne Memorial Formula Grant Program	16.579	D04-038	4,200
Total U.S. Department of Justice			<u>128,287</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed Through Bureau of Indian Affairs:			
Highway Planning and Construction - Yeager Road Project	20.205	SG-1917	791,345
Highway Planning and Construction - Calvin Road North (Toparkfa)	20.205	CT G07 T 908 41	130,395
Highway Planning and Construction - Thewarle Church Road	20.205	CT G07 T 908 28	36,531
Total U.S. Department of Transportation			<u>958,271</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through State Department of Civil Emergency Management:			
Emergency Management Performance Grants (EMPG)	97.042		4,127
Emergency Management Performance Grants (EMPG)	97.042		1,305
Total U.S. Department of Homeland Security			<u>5,432</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,139,590</u></u>

The accompanying notes are an integral part of this schedule.
See independent auditor's report.

**HUGHES COUNTY, OKLAHOMA
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Hughes County, and is presented on the *cash basis of accounting*. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**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
HUGHES COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Hughes County, Oklahoma, as of and for the year ended June 30, 2005, which comprises Hughes County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated September 11, 2006. Our report on the basic financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. Also, our report describes certain responsibilities of the State Auditor and Inspector's Office other than audit responsibilities. 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.

Internal Control Over Financial Reporting

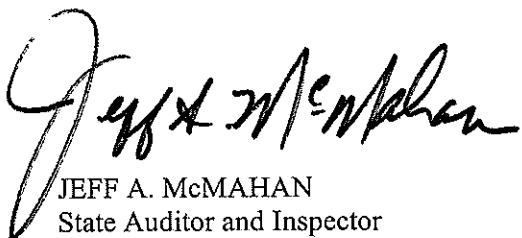
In planning and performing our audit, we considered Hughes County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Hughes County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1, 2005-2, and 2005-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2005-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hughes County's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2005-4. We also noted a certain matter that we reported to the management of Hughes County, which is included in Section 4 of the schedule of findings and questioned costs contained in this report.

This report is intended solely for the information and use of the management of the County, federal awarding agencies and pass-through entities and should not be used for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S., section 24A.1 et seq.), and shall be open to any person for inspection and copying.



JEFF A. McMAHAN
State Auditor and Inspector

September 11, 2006



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with
OMB Circular A-133**

TO THE OFFICERS OF
HUGHES COUNTY, OKLAHOMA

Compliance

We have audited the compliance of Hughes County, Oklahoma, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Hughes County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Hughes County's management. Our responsibility is to express an opinion on Hughes County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hughes County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hughes County's compliance with those requirements.

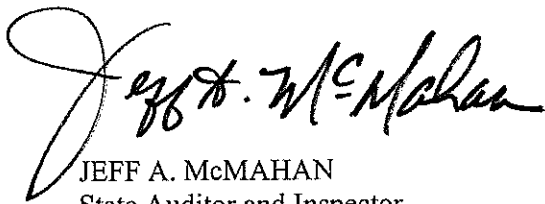
In our opinion, Hughes County, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Hughes County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hughes County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the County, federal awarding agencies and pass-through entities and should not be used for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S., section 24A.1 et seq.), and shall be open to any person for inspection and copying.

A handwritten signature in black ink that reads "Jeff A. McMAHAN". The signature is written in a cursive style with a large, looping initial "J".

JEFF A. McMAHAN
State Auditor and Inspector

September 11, 2006

**HUGHES COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

SECTION 1—Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued: Adverse as to GAAP; unqualified as to statutory presentation

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? Yes

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weakness(es)? None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

**HUGHES COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

SECTION 2—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 2005-1—Segregation of Duties (Repeat Finding)

Criteria: Segregation of duties over asset custody, transaction authorization, bookkeeping and reconciliation is an important element of effective internal control over government assets and resources.

Condition: The limited number of office personnel within several County offices prevents a proper segregation of accounting functions, which is necessary to assure adequate internal control structure.

Recommendation: We recommend management be aware of this condition and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management's knowledge of office operations and a periodic review of operations.

Views of responsible officials and planned corrective actions: We concur with the State Auditor's findings. Management does have knowledge of office operations and will perform a periodic review of these operations.

Finding 2005-2—Written Disaster Recovery Plan (Repeat Finding)

Criteria: According to the standards of the Information Systems Audit and Control Association's (COBIT Delivery & Support 4.3), management should ensure that a written Disaster Recovery Plan is documented and contains the following:

- Guidelines on how to use the Recovery Plan,
- Emergency procedures to ensure the safety of all affected staff members,
- Roles and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel,
- Listing of systems requiring alternatives (hardware, peripherals, software),
- Listing of highest to lowest priority applications, required recovery times and expected performance norms,
- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step-by-step execution,
- Specific equipment and supply needs are identified such as high speed printers, signatures, forms, communications equipment, telephones, etc. and a source and alternative source defined,
- Training and/or awareness of individual and group roles in continuity plan,
- Listing of contracted service providers,
- Logistical information on location of key resources, including back-up site for recovery operating system, applications, data files, operating manuals and program/system/user documentation,
- Current names, addresses, telephone/pager numbers of key personnel,

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- Business resumption alternatives for all users for establishing alternative work locations once IT resources are available.

Condition: The County does not have a written Disaster Recovery Plan.

Recommendation: We recommend the County establish a Disaster Recovery Plan to ensure the safekeeping and integrity of the County's financial and non-financial data.

Views of responsible officials and planned corrective actions: Each office will work to implement a formal Disaster Recovery Plan.

Finding 2005-3—Written Policies and Procedures (Repeat Finding)

Criteria: According to the standards of the Information Systems Audit and Control Association's (COBIT Delivery and Support 7), management should educate and train users to ensure that users are making effective use of technology and are aware of their risks and responsibilities.

Condition: The County does not have a written policies and procedures addressing information security or provide adequate awareness training.

Recommendation: We recommend the County establish Information Security policies and procedures. A security awareness training program should be established and all employees using computers required to participate.

Views of responsible officials and planned corrective actions: The County officials will work to prepare and implement policies and procedures for the information systems.

Finding 2005-4—Financial Statements (Repeat Finding)

Criteria: For counties who have adopted the County Budget Act per Title 19 O.S. § 1403 and Title 19 O.S. § 1405 states, "The accounting records of each county shall be established and maintained and financial statements prepared therefore in conformity with generally accepted accounting principles promulgated from time to time by authoritative bodies of the United States..."

Condition: The County has adopted the County Budget Act, however, does not prepare financial statements in conformity with generally accepted accounting principles as provided by that Act.

Recommendation: We recommend the County prepare financial statements in conformity with generally accepted accounting principles as required by counties who have adopted the County Budget Act.

Views of responsible officials and planned corrective actions: Management is aware of this situation, however, due to financial situations we are unable to comply with this statute at this time. We are currently in the process of correcting this situation to comply with state statutes.

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SECTION 3—Findings related to the Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.

No matters were reported.

SECTION 4—This section contains certain matters not required to be reported in accordance with *Government Auditing Standards* or OMB A-133. 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 2005-5—Fixed Assets Inventory (Repeat Finding)

Criteria: Title 19 O.S. § 178.1 states, “The board of county commissioners in each county of this state shall take, or cause to be taken, an inventory of all working tools, apparatus, machinery and equipment belonging to the county or leased or otherwise let to it or to any department thereof, other than that which is affixed to and made a part of lands and buildings, the cost of which as to each complete working unit thereof is more than Two Hundred Fifty Dollars (\$250.00), and therefore maintain or cause to be maintained a continuous inventory record thereof and of like tools, apparatus, machinery and equipment purchased, leased, or otherwise coming into custody of the county or of any office, board, department, commission or any or either thereof, and the disposition thereof whether sold, exchanged, leased, or let where authorized by statute, junked, strayed or stolen, and biennially thereafter....”

Condition: All offices do not perform a biennial verification of the fixed assets inventory.

Recommendation: We recommend that the Board of County Commissioners cause a biennial inventory to be taken of all working tools, apparatus, machinery, and equipment belonging to the County. We also recommend that these inventories be documented on form #3512.

Views of responsible officials and planned corrective actions: All officers will work together to compile a complete listing of County inventory. We will also try to conduct a physical inventory of all items once every two years.