



# KAY COUNTY

## Single Audit

For the fiscal year ended June 30, 2018

**Cindy Byrd, CPA**  
State Auditor & Inspector

**SINGLE AUDIT REPORT  
KAY COUNTY, OKLAHOMA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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May 5, 2021

TO THE CITIZENS OF  
KAY COUNTY, OKLAHOMA

Transmitted herewith is the Single Audit Report of Kay County, Oklahoma for the fiscal year ended June 30, 2018. Our audit report on 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* were issued under separate cover. The audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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

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

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

Sincerely,



CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR & INSPECTOR



**KAY COUNTY, OKLAHOMA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**Schedule of Expenditures of Federal Awards**

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>U.S. DEPARTMENT OF DEFENSE</b>			
Department of the Army			
Passed Through the Oklahoma Treasurer's Office:			
Flood Plain Management Services	12.104	N/A	\$ 9,246
Total U.S. Department of Defense			<u>9,246</u>
<b>U.S. DEPARTMENT OF INTERIOR</b>			
Office of the Secretary of the Interior			
Direct Grant:			
Payments In Lieu of Taxes	15.226	N/A	105,703
Total U.S. Department of Interior			<u>105,703</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Federal Highway Administration			
Passed Through the Bureau of Indian Affairs:			
Highway Planning and Construction - Maintenance Agreement	20.205	A15AC00117	92,619
Highway Planning and Construction - Washunga Bay	20.205	A16AC00065	1,462,284
Highway Planning and Construction - Six Bridges	20.205	A17AC00043	70,000
Total U.S. Department of Transportation			<u>1,624,903</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Federal Emergency Management Agency			
Passed Through the Oklahoma Department of Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-4222	105,756
Total U.S. Department of Homeland Security			<u>105,756</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,845,608</u>

The accompanying notes are an integral part of this schedule.

**KAY COUNTY, OKLAHOMA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Kay County and is presented on the *cash basis of accounting*. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.

Indirect Cost Rate

Kay County has elected to not use the 10 percent de minimis cost rate allowed for by 2 CFR§ 200.414(f).

The accompanying notes are an integral part of this schedule.

**Independent Auditor's Report on Compliance for Each Major Federal Program  
and on Internal Control Over Compliance Required by  
the Uniform Guidance**

**Independent Auditor's Report on Compliance for Each Major Federal Program  
and on Internal Control Over Compliance Required by  
the Uniform Guidance**

TO THE OFFICERS OF  
KAY COUNTY, OKLAHOMA

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of Kay County, Oklahoma, with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Kay County's major federal program for the year ended June 30, 2018. Kay County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Kay 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Kay County's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Kay County, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.



## **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-015 and 2018-017. Our opinion on the major federal program is not modified with respect to these matters.

Kay County's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Kay County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control Over Compliance**

Management of Kay County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Kay County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kay County's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-012, 2018-013, and 2018-014, that we consider to be material weaknesses.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the combined total—all county funds on the accompanying regulatory basis Statement of Receipts, Disbursements, and Changes in Cash Balances of Kay County, Oklahoma, as of and for the year ended June 30, 2018, and the related notes to the financial statement. We issued our report thereon dated July 6, 2020, which contained an unmodified opinion on the financial statement. Our audit was conducted for the purpose of forming an opinion on the financial statement. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform

Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statement as a whole.

### **Kay County's Response to Findings**

Kay County's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Kay County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable 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.



CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR & INSPECTOR

April 27, 2021 except as to the Schedule of Expenditures  
of Federal Awards, for which the date is July 6, 2020

**Schedule of Findings and Questioned Costs**

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**SECTION 1—Summary of Auditor’s Results**

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified?..... Yes
- Significant deficiency(ies) identified? ..... None reported

Noncompliance material to the financial statement noted? ..... No

For fiscal year 2018, the Financial Report for Kay County for the year ending June 30, 2018 was issued under separate cover dated July 6, 2020.

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?..... Yes
- Significant deficiency(ies) identified? ..... None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR § 200.516(a) of the Uniform Guidance? ..... Yes

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: ..... \$750,000

Auditee qualified as low-risk auditee?..... No

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**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 2018-003 – Internal Controls Over Signature Stamps and the Disbursement Process (Repeat Finding - 2016-005, 2017-003)**

**Condition:** Upon inquiry and observation the following weakness was noted:

- The signature stamps for the County Commissioners are retained in the County Clerk’s office and are under the physical control of the County Clerk.

Of the sixty (60) disbursements tested, the following was noted:

- One (1) disbursement was not adequately documented due to lack of itemized invoice.
- Four (4) disbursements were not adequately documented due to timesheet not signed by employee and /or supervisor.
- One (1) disbursement was not reviewed/authorized.
- One (1) disbursement was not approved by the Board of County Commissioners.

**Cause of Condition:** Policies and procedures have not been designed and implemented to adequately mitigate against the risk of unauthorized individuals having access to the elected officials’ signature stamps. Additionally, policies and procedures have not been designed and implemented to ensure the County is in compliance with state statute regarding the disbursement process.

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

**Recommendation:** The Oklahoma State Auditor’s Office (OSAI) recommends that signature stamps be used only by the official to whom it belongs. Officials who utilize signature stamps should ensure that signature stamps are adequately safeguarded from unauthorized use. Additionally, OSAI recommends that the County implement internal control procedures to ensure compliance with purchasing guidelines. Disbursements should be supported by adequate documentation, reviewed, authorized, and approved by the Board of County Commissioners, and/or management.

**Management Response:**

**Commissioner District 1:** Corrective action will be taken to resolve these concerns. My signature stamp will be in my possession, and solely for my use.

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**Commissioner District 2:** These issues will be corrected. I will retain physical custody of my signature stamp and properly secure my signature stamp after each meeting.

**Commissioner District 3:** We are currently working to resolve these issues. I will ensure the security of my signature stamp and guard it from unauthorized use.

**County Clerk:** I was not fully aware of the possible risks related to access to the Commissioners' signature stamps. The County Clerk's office will no longer have physical custody of the Commissioners' signature stamps. Disbursements were reviewed to determine cause of noncompliance. Disbursements will be adequately documented, be reviewed and authorized, and be approved by the Board of County Commissioners, and/or management to ensure compliance with purchasing guidelines.

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

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

*Segregation of Duties*

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principle 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

**Finding 2018-011 – Internal Controls Over the Financial Statement Presentation (Repeat Finding-2017-010)**

**Condition:** The County has not designed and implemented internal controls to ensure the accurate presentation of the County’s financial statement. During the review and reconciliation of the financial statement, as initially prepared by the County, we determined that due to the misclassification of County Funds, the balances, apportionments, transfers and disbursements were misstated as shown below:

	<b>Beginning Cash Balances July 1, 2017</b>	<b>Receipts Apportioned</b>	<b>Transfer In</b>	<b>Transfer Out</b>	<b>Disbursements</b>	<b>Ending Cash Balances June 30, 2018</b>
As reported by County	\$10,600,906	\$18,989,505	\$150,000	\$150,000	\$18,483,823	\$11,106,588
As Amended	9,482,326	17,977,431	152,428	2,428	16,538,071	11,071,686
Adjustments	(\$1,118,580)	(\$1,012,074)	\$2,428	(\$147,572)	(\$1,945,752)	(\$34,902)

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure that the County’s financial statement is accurately presented.

**Effect of Condition:** This condition resulted in the beginning balance, apportionments, transfers, disbursements and ending balances for county funds to be misstated on the County’s financial statement.

**Recommendation:** OSAI recommends the County design and implement policies and procedures to ensure the County’s financial statement is accurately presented.

**Management Response:**

**County Treasurer:** All future financial statements will accurately classify county funds to ensure the financial statement is accurately presented.

**Chairman of the Board of County Commissioners:** The County will develop a review process to ensure the County financial statement is accurately presented.

**Criteria:** The limitations of the auditor are described in the American Institute of Certified Public Accountants Clarified Statements on Auditing Standards AU-C § 210, which states, in part: “The concept of an independent audit requires that the auditor's role does not involve assuming management's responsibility for the preparation and fair presentation of the financial statements or assuming responsibility

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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for the entity's related internal control and that the auditor has a reasonable expectation of obtaining the information necessary for the audit insofar as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an independent audit.”

The County’s management is responsible for establishing internal control procedures to prevent or detect misstatements in a timely manner. This includes preparation of the financial statements and accompanying notes to the financial statements in accordance with applicable accounting principles. Statement on Auditing Standards (SAS) No. 115 indicates that the County must have adequate knowledge and expertise to apply accounting principles to the financial statements or to review financial statements prepared on their behalf by others to ensure they are prepared in accordance with these principles. Professional audit standards preclude the external financial statement auditor from performing any part of management’s control activities or be a component of the internal controls over financial reporting as this would impair their independence.

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

**SECTION 3— Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance**

**Finding 2018-012– Lack of Internal Controls Over the Schedule of Expenditures of Federal Awards (Repeat Finding – 2013-006, 2014-006, 2015-006, 2016-012, 2017-012)**

**PASS-THROUGH GRANTOR:** Bureau of Indian Affairs - BIA

**FEDERAL AGENCY:** U.S. Department of Transportation

**CFDA NO:** 20.205

**FEDERAL PROGRAM NAME:** Highway Planning and Construction

**FEDERAL AWARD NUMBER:** A15AC00117, A17AC00043, A16AC00065

**FEDERAL AWARD YEAR:** 2018

**CONTROL CATEGORY:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Period of Performance; Procurement and Suspension and Debarment; and Special Tests and Provisions

**QUESTIONED COSTS:** \$-0-

**Condition:** During our audit we identified federal programs that were not listed accurately on the County’s Schedule of Expenditures of Federal Awards (SEFA). Federal expenditures were understated by \$117,288.

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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The following misstatements were noted:

- The actual expenditures for Highway Planning and Construction, CFDA 20.205 were \$1,624,903 and the County reported \$1,613,371. The County understated the expenditures for CFDA 20.205 by \$11,532.
- Expenditures for Disaster Grants – Public Assistance (Presidentially Declared Disasters), CFDA 97.036 received by the County were not reported. Actual expenditures for CFDA 97.036 were \$105,756.

Reported Total Expenditures of Federal Award	\$1,728,320
Add: Highway Planning and Construction (CFDA 20.205)	11,532
Add: Disaster Grants (CFDA 97.036)	<u>105,756</u>
Actual Federal Expenditures of Federal Awards	<u>\$1,845,608</u>
Original SEFA Understated by	<u>\$ 117,288</u>

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure accurate reporting of expenditures for all federal awards.

**Effect of Condition:** This condition resulted in erroneous reporting and a material misstatement of the County’s SEFA and could result in a material noncompliance with federal regulations.

**Recommendation:** OSAI recommends county officials and department heads gain an understanding of federal programs awarded to Kay County. Internal control procedures should be designed and implemented to ensure accurate reporting of expenditures on the SEFA and to ensure compliance with federal requirements.

**Management Response:**

**Chairman of the Board of County Commissioners:** I was not in office at this time. Kay County is currently working on policies and procedures to accurately track grants, including oversight and reporting of grant requirements.

**County Clerk:** Kay County is currently working on internal control procedures to include federal policies and procedures in our officer’s meetings to more accurately track federal revenue and expenditures for the SEFA report.

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**Criteria:** The GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.23 states in part:

*Objectives of an Entity - Compliance Objectives*

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements. Some entities may set objectives to a higher level of performance than established by laws and regulations. In setting those objectives, management is able to exercise discretion relative to the performance of the entity.

2 CFR 200 § 200.510(a)(b) Financial Statements reads as follows: (a) Financial statements. The auditee must prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited. The financial statements must be for the same organizational unit and fiscal year that is chosen to meet the requirements of this part. However, non-Federal entity-wide financial statements may also include departments, agencies, and other organizational units that have separate audits in accordance with §200.514 Scope of audit, paragraph (a) and prepare separate financial statements. (b) Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended.

2 CFR § 200.303(a) *Internal Controls* reads as follows:

The non-Federal entity must:

Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

2 CFR § 200.508(b) *Auditee responsibilities* reads as follows:

The auditee must:

Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 Financial statements.

2 CFR § 200.510(b) *Financial statements* reads as follows:

*Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. [...]

**Finding 2018-013 – Lack of County-Wide Controls Over Major Federal Program – Highway Planning and Construction (Repeat Finding – 2013-007, 2014-007, 2015-007, 2016-013, 2017-013)**

**PASS-THROUGH GRANTOR:** Bureau of Indian Affairs - BIA

**FEDERAL AGENCY:** U.S. Department of Transportation

**CFDA NO:** 20.205

**FEDERAL PROGRAM NAME:** Highway Planning and Construction

**FEDERAL AWARD NUMBER:** A15AC00117, A17AC00043, A16AC00065

**FEDERAL AWARD YEAR:** 2018

**CONTROL CATEGORY:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching; Period of Performance; Procurement and Suspension and Debarment, and Special Tests and Provisions

**QUESTIONED COSTS:** \$-0-

**Condition:** County-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure the County is in compliance with grant requirements.

**Effect of Condition:** This condition resulted in noncompliance to grant requirements.

**Recommendation:** OSAI recommends that the County implement a system of internal controls to ensure compliance with grant requirements.

**Management Response:**

**Chairman of the Board of County Commissioners:** I was not in office at this time. Kay County will assess ways to design controls that will be effective to ensure compliance with grant requirements.

**County Clerk:** Kay County is working to improve our internal control procedures to make sure all federal grant requirements are in compliance with the grant contracts. These in-depth conversations will be discussed in our officers' internal control meetings.

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

*Definition of Internal Control*

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

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

*Components, Principles, and Attributes*

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

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

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

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

**Finding 2018-014 - Lack of Internal Controls Over Major Federal Program – Highway Planning and Construction (Repeat Finding – 2013-008, 2014-008, 2015-008, 2016-014, 2017-014)**

**PASS-THROUGH GRANTOR:** Bureau of Indian Affairs

**FEDERAL AGENCY:** U.S. Department of Transportation

**CFDA NO:** 20.205

**FEDERAL PROGRAM NAME:** Highway Planning and Construction

**FEDERAL AWARD NUMBER:** A15AC00117, A17AC00043, A16AC00065

**FEDERAL AWARD YEAR:** 2018

**CONTROL CATEGORY:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching; Period of Performance; Procurement and Suspension and Debarment, and Special Tests and Provisions.

**QUESTIONED COSTS:** \$-0-

**Condition:** During the process of documenting the County’s internal controls regarding federal disbursements, we noted that Kay County has not established procedures to ensure compliance with the following compliance requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles;

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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Cash Management; Matching; Period of Performance; Procurement and Suspension and Debarment; and Special Tests and Provisions.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure federal expenditures are made in accordance with federal compliance requirements.

**Effect of Condition:** This condition could result in noncompliance to grant requirements and loss of federal funds to the County.

**Recommendation** OSAI recommends the County implement a system of internal controls to ensure compliance with grant requirements.

**Management Response:**

**Chairman of the Board of County Commissioners:** I was not in office at this time. Kay County officials will work on policies and procedures for all employees involved with federal awards, to ensure compliance with federal requirements.

**County Clerk:** Kay County is working to improve our internal control procedures to make sure all federal grant requirements are in compliance with the grant contracts. These in-depth conversations will be discussed in our officer's internal control meetings.

**Criteria** GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.23 states in part:

*Objectives of an Entity – Compliance Objectives*

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.

2 CFR § 200.303(a) *Internal Controls* reads as follows:

The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**Finding 2018-015 - Noncompliance Over Major Programs – Highway Planning and Construction - Activities Allowed or Unallowed; Allowable Costs/Cost Principles**

**PASS-THROUGH GRANTOR:** Bureau of Indian Affairs (BIA)

**FEDERAL AGENCY:** U.S. Department of Transportation

**CFDA NO:** 20.205

**FEDERAL PROGRAM NAME:** Highway Planning and Construction

**FEDERAL AWARD NUMBER:** A15AC00117, A17AC00043, A16AC00065

**FEDERAL AWARD YEAR:** 2018

**CONTROL CATEGORY:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles

**QUESTIONED COSTS:** \$9,551

**Condition:** A test of 100% of BIA expenditures the following was noted:

- One (1) purchase order was not allowed by the BIA Maintenance Co-operative Agreement in the amount of \$9,551.

The error result in questioned costs totaling \$9,551.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure compliance with OMB 2 CFR 200, Subpart D. § .303(a) grant requirements and contracts' conditions.

**Effect of Condition:** This condition resulted in noncompliance with grant requirements. The County runs the risk of misappropriation of funds and the possibility of not having adequate funds available to pay for expenses incurred.

**Recommendation:** OSAI recommends the County gain an understanding of grant requirements for these programs and implement internal controls to ensure compliance with these requirements.

**Management Response:**

**Chairman of the Board of County Commissioners:** I was not in office at this time. Kay County will ensure the implementing of internal controls designed to accurately track grants, including oversight and reporting of grant requirements. Our policies and procedures are intended to identify requirements to ensure that we follow all applicable compliance supplements.

**Criteria:** The GAO Standards – Section 2 - Establishing an Effective Internal Control System – OV2.23 states in part:

*Compliance Objectives*

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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requirements. Some entities may set objectives to a higher level of performance than established by laws and regulations. In setting those objectives, management is able to exercise discretion relative to the performance of the entity.

2 CFR 200, Subpart D. § .303(a) reads as follows:

The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Compliance Supplement (2017 version) Part 4 - 20.205 – Highway Planning and Construction - Activities Allowed or Unallowed states in part:

Federal funds can be used only to reimburse costs that are (a) incurred subsequent to the date of authorization to proceed, except for certain property acquisition costs permitted under 23 USC 108, certain emergency repair work under 23 USC 125, and preliminary engineering under Section 1440 of the FAST Act (23 USC 121 note); (b) in accordance with the conditions contained in the project agreement and the plans, specifications, and estimates (PS&E); (c) allocable to a specific project; and (d) claimed for reimbursement subsequent to the date of the project agreement (23 CFR sections 1.9, 630.106, 630.205, and 635.112).

Further, Maintenance Co-operative Agreement, Section 5 Part A – County Responsibilities subpart 2. Maintenance Construction states in part:

The County shall use the County Force Account to perform all maintenance planning and repairs. Funding from this agreement shall not be used to hire a contractor or subcontractor to perform the work to comply with the conditions of the agreement. A contractor may be used for crack sealing and striping maintenance repairs.

**Finding 2018-017 - Noncompliance with Procurement and Suspension and Debarment Requirement - Highway Planning and Construction (Repeat Finding – 2017-017)**

**PASS-THROUGH GRANTOR:** Bureau of Indian Affairs (BIA)

**FEDERAL AGENCY:** U.S. Department of Transportation

**CFDA NO:** 20.205

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**FEDERAL PROGRAM NAME:** Highway Planning and Construction  
**FEDERAL AWARD NUMBER:** A17AC00043, A15AC00117, A16AC00065  
**FEDERAL AWARD YEAR:** 2018  
**CONTROL CATEGORY:** Suspension and Debarment  
**QUESTIONED COSTS:** \$-0-

**Condition:** During the review of 100% of BIA expenditures the following was noted:

- System for Award Management (SAM) was not performed and/or retained for vendors.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure proper bid documentation is retained and bids are in accordance with State and Federal laws and regulations.

**Effect of Condition:** This condition resulted in noncompliance with state and federal laws and regulations.

**Recommendation:** OSAI recommends the County implement policy and procedures to ensure all bids are in accordance with State and Federal laws and regulations. OSAI also recommends all vendors are verified through the SAM system and to ensure the proper bid documents are maintained.

**Management Response:**

**Chairman of the Board of County Commissioners:** I was not in office at this time. Kay County is currently implementing internal controls to designed to accurately track grants, including oversight and reporting of grant requirements. These policies and procedures are intended to identify requirements to ensure compliance with all applicable compliance requirements. This would include verification of all vendors through the SAM system and to ensure the proper bid documents are maintained.

**Criteria:** GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.23 states in part:

*Objectives of an Entity – Compliance Objectives*

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.

2 CFR § 200.303(a) *Internal Controls* reads as follows:

The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Compliance Supplement (2018 Version) Part 3.2, also states in part:

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All non-procurement transactions entered into by a pass-through entity (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/>, (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

**APPENDIX A**

**CORRECTIVE ACTION PLAN**

**(Prepared by County Management)**

**JACK GODBERSON**  
 2026 East Coleman Road  
 Ponca City, Oklahoma 74604  
**District #1**  
 (580) 765-3237

**JASON SHANKS**  
 1125 West Dry Road  
 Newkirk, Oklahoma 74647  
**District #2**  
 (580) 362-2231

**JOHN WILSON**  
 1814 West Dewey  
 Blackwell, Oklahoma 74631  
**District #3**  
 (580) 363-0160



**Corrective Action Plan  
 in accordance with 2 CFR § 200.511c  
 for the fiscal year ended June 30, 2018**

<b>Finding No.</b>	<b>Title (Financial) or CFDA No. &amp; Program Name (Federal)</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2018-003	Internal Controls Over Signature Stamps and the Disbursement Process	Management understands the need to safeguard their signature stamp to avoid unauthorized use. Moreover, disbursements will be adequately documented, be reviewed, and authorized and approved by BOCC.	6/30/19	Tammy Reese
2018-011	Internal Controls Over the Financial Statement Presentation	Management will develop a review process to ensure the County financial statement is accurately presented.	6/30/19	Christy Kennedy
2018-012	Lack of Internal Controls and Noncompliance Over the Schedule of Expenditures of Federal Awards	Kay County is currently working on policies and procedures to accurately track grants, including oversight and reporting of grant requirements.	1/31/21	John Wilson
2018-013	Lack of County-Wide Controls Over Major Program – Highway Planning and Construction	The Board of County Commissioners are currently assessing ways to design controls that will be effective in risk assessments and to ensure the County complies with all grant requirements	1/31/21	John Wilson
2018-014	Lack of Internal Controls Over Major Federal Programs – Highway	Kay County officials will work on policy and procedures for all employees involved with federal awards, to ensure compliance with Federal requirements.	1/31/21	John Wilson

	Planning and Construction			
2018-015	Noncompliance Over Major Programs – Activities Allowed or Unallowed; Allowable Costs/Cost Principles Management-Highway Planning and Construction	The Board of County Commissioners are currently assessing ways to design controls that will be effective to ensure the County complies with grant requirements.	1/31/21	John Wilson
2018-017	Noncompliance with Procurement and Suspension and Debarment Requirement - Highway Planning and Construction	Kay County is currently implementing internal controls to designed to accurately track grants, including oversight and reporting of grant requirements. These policies and procedures are intended to identify requirements to ensure compliance with all applicable compliance. This would include verification of all vendors through the SAM system and to ensure the proper bid documents are maintained.	1/31/21	John Wilson

**APPENDIX B**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**(Prepared by County Management)**

**JACK GODBERSON**  
2026 East Coleman Road  
Ponca City, Oklahoma 74604  
**District #1**  
(580) 765-3237

**JASON SHANKS**  
1125 West Dry Road  
Newkirk, Oklahoma 74647  
**District #2**  
(580) 362-2231

**JOHN A. WILSON**  
1814 West Dewey  
Blackwell, Oklahoma 74631  
**District #3**  
(580) 363-0160



**Summary Schedule of Prior Audit Findings  
in accordance with 2 CFR § 200.511b  
for the fiscal year ended June 30, 2018**

**FINANCIAL AUDIT FINDINGS**

**Finding 2017-003, 2016-005**

**Internal Controls and Noncompliance Over Disbursements**

- **Finding Summary:** The signature stamps for the County Commissioners are retained in the County Clerk's Office and are under the physical control of the County Clerk.

**Status:** Partially Corrected. The County implemented policy and procedures to address each purchase that is not in compliance with state statutes. All non-compliance purchase orders are separated, tracked on a ledger, then given to the District Attorney. The D.A. will address each office regarding the non-compliance and have them sign the document. Once the purchase order is received back, it is presented to the Board for approval. However, the County still has not addressed safeguarding their signature stamp to avoid unauthorized use.

**Finding 2017-010**

**Internal Controls Over the Financial Statement Presentation.**

**Finding Summary:** Due to the misclassification of County Funds the balances, apportionments, transfers and disbursements were misstated.

Beginning Balance	Apportioned	Transfer In	Transfer Out	Disbursements	Ending Balance
(\$2,665,101)	(\$4,934,360)	\$5,623	\$130,605	(\$6,605,863)	(\$1,118,580)

**Status:** Not Corrected. To correct this issue, management will implement a process to accurately classify county funds to ensure the financial statement is accurately presented.

**FEDERAL AUDIT FINDINGS**

**Finding 2017-012, 2016-012, 2015-006, 2014-006, 2013-006, 2012-003, 2011-003, 2010-003, 2009-009, and 2008-010**

**Lack of Internal Controls and Noncompliance Over the Schedule of Expenditures of Federal Awards**

**PASS-THROUGH GRANTOR:** Bureau of Indian Affairs - BIA

**FEDERAL AGENCY:** U.S. Department of Transportation

**CFDA NO:** 20.205

**FEDERAL PROGRAM NAME:** Highway Planning and Construction

**FEDERAL AWARD NUMBER:** A13AC00017, A15AC00119, A11AC00002/AGB00110002, A15AC00117, A13AC00015, A13AC00018

**FEDERAL AWARD YEAR:** 2017

**Control Category:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Equipment and

Real Property Management; Matching, Level of Effort, Earmarking; Period of Availability; Procurement and Suspension and Debarment; Program Income; Reporting; Subrecipient Monitoring and Special Tests and Provisions.

**Questioned Costs:** \$-0-

**Finding Summary:** Schedule of Expenditures of Federal Awards being overstated by \$679,474.

**Status:** Not Corrected. To correct this issue, the County plans implementing internal control procedures to accurately track and report federal revenues and expenditures on the SEFA. To ensure compliance with federal requirements, and to report expenditures and revenues for all federally awarded programs. The process will be monitored by Kay County.

**Finding 2017-013, 2016-013, 2015-007, 2014-007, 2013-007, 2012-016, 2011-016, and 2010-016**

**Lack of County Wide Controls Over Major Programs - Highway Planning and Construction**

**PASS-THROUGH GRANTOR:** Bureau of Indian Affairs - BIA

**FEDERAL AGENCY:** U.S. Department of Transportation

**CFDA NO:** 20.205

**FEDERAL PROGRAM NAME:** Highway Planning and Construction

**FEDERAL AWARD NUMBER:** A13AC00017, A15AC00119, A11AC00002/AGB00110002, A15AC00117, A13AC00015, A13AC00018

**FEDERAL AWARD YEAR:** 2017

**Control Category:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, and Special Tests and Provisions.

**Questioned Costs:** \$-0-

**Finding Summary:** County-wide controls regarding Control Environment, Risk Management, Information and Communication, and Monitoring have not been designed.

**Status:** Not Corrected. To correct this issue, Kay County plans on implementing policy and procedures to accurately track grants, including oversight and reporting of grant requirements. These policies and procedures are intended to identify requirements for recipients and sub-recipients to ensure compliance with all applicable compliance requirements.

**Finding 2017-014, 2016-014, 2015-008, 2014-008, 2013-008, 2012-017, 2011-017, and 2010-017**

**Lack of Internal Controls Over Major Federal Programs – Highway Planning and Construction**

**PASS-THROUGH GRANTOR:** Bureau of Indian Affairs - BIA

**FEDERAL AGENCY:** U.S. Department of Transportation

**CFDA NO:** 20.205

**FEDERAL PROGRAM NAME:** Highway Planning and Construction

**FEDERAL AWARD NUMBER:** A13AC00017, A15AC00119, A11AC00002/AGB00110002, A15AC00117, A13AC00015, A13AC00018

**FEDERAL AWARD YEAR:** 2017

**CONTROL CATEGORY:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching and Special Tests and Provisions.

**QUESTIONED COSTS:** \$-0-

**Finding Summary:** Kay County has not established procedures to ensure compliance with the following compliance requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching and Special Tests and Provisions

**Status:** Not Corrected. To correct this issue, Kay County plans on implementing policy and procedures to ensure compliance with all grant requirements including activities allowed, allowable costs, matching and special provisions.

**Finding 2017-015**

**Noncompliance with Activities Allowed or Unallowed and Allowable Costs/Cost Principles – Highway Planning and Construction**

**PASS-THROUGH GRANTOR:** Bureau of Indian Affairs - BIA

**FEDERAL AGENCY:** U.S. Department of Transportation

**CFDA NO:** 20.205

**FEDERAL PROGRAM NAME:** Highway Planning and Construction

**FEDERAL AWARD NUMBER:** A13AC00017, A15AC00119, A11AC00002/AGB00110002, A15AC00117, A13AC00015, A13AC00018

**FEDERAL AWARD YEAR:** 2017

**CONTROL CATEGORY:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles

**QUESTIONED COSTS:** \$51,261

**Finding Summary:** One (1) purchase order was not allowed by the Maintenance Co-operative Agreement in the amount of \$7,000 and One (1) purchase order in the amount of \$44,261 was charged to BIA to pay Oklahoma Department of Transportation as a matching requirement.

**Status:** Not Corrected. To correct this issue, the County is currently implementing internal controls to designed to accurately track grants, including oversight and reporting of grant requirements. These policies and procedures are intended to identify requirements for recipients and sub-recipients to ensure compliance with all applicable compliance.

**Finding 2017-017**

**Noncompliance with Procurement and Suspension and Debarment Requirement**

**PASS-THROUGH GRANTOR:** Bureau of Indian Affairs - BIA

**FEDERAL AGENCY:** U.S. Department of Transportation

**CFDA NO:** 20.205

**FEDERAL PROGRAM NAME:** Highway Planning and Construction

**FEDERAL AWARD NUMBER:** A13AC00017, A15AC00119, A11AC00002/AGB00110002, A15AC00117, A13AC00015, A13AC00018

**FEDERAL AWARD YEAR:** 2017

**CONTROL CATEGORY:** Procurement and Debarment and Suspension

**QUESTIONED COSTS:** \$-0-

**Finding Summary:** System for Award Management (SAM) was not performed and/or retained for all vendors.

**Status:** Partially Corrected. To correct this issue the County is currently implementing internal controls to designed to accurately track grants, including oversight and reporting of grant requirements. These policies and procedures are intended to identify requirements for recipients and sub-recipients to ensure compliance with all applicable compliance. This would include verification of all vendors through the SAM system.

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



**Cindy Byrd, CPA | State Auditor & Inspector**

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