

COUNTY AUDIT

KAY COUNTY

For the fiscal year ended June 30, 2009



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**KAY COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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Oklahoma State Auditor & Inspector

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June 20, 2011

TO THE CITIZENS OF
KAY COUNTY, OKLAHOMA

Transmitted herewith is the audit of Kay County, Oklahoma for the fiscal year ended June 30, 2009. 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 blue ink that reads "Gary A. Jones".

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

**KAY COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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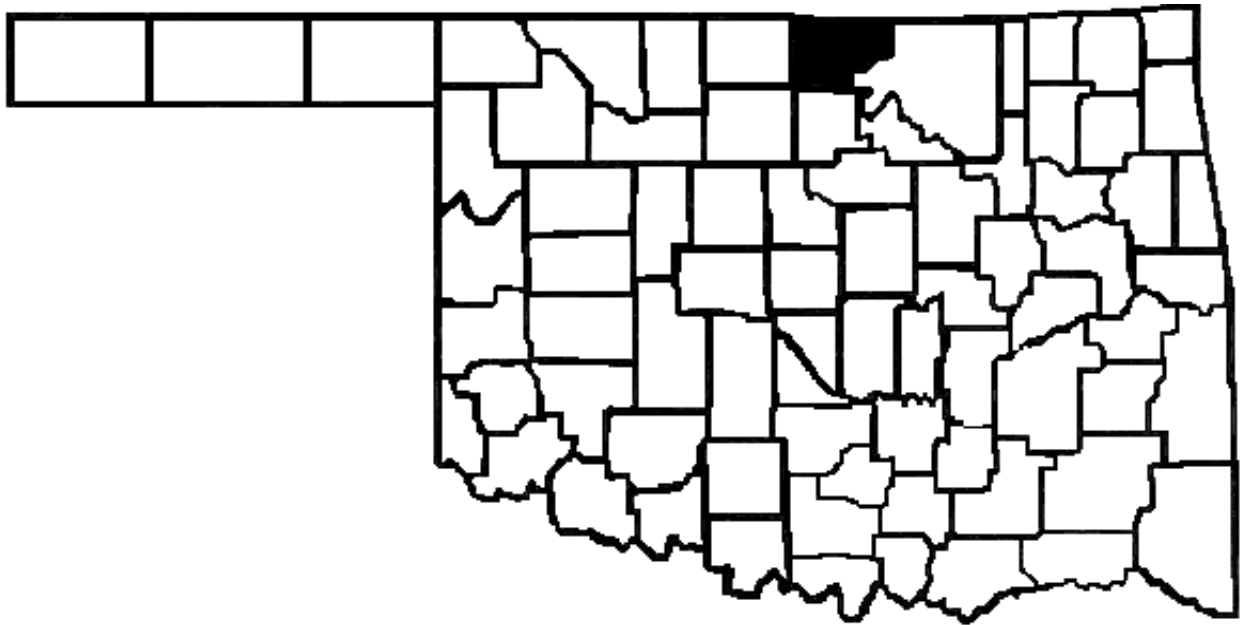
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**KAY COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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**REPORT TO THE CITIZENS
OF
KAY COUNTY, OKLAHOMA**



Located in north central Oklahoma bordering Kansas, Kay County was formed from the —Cherokee Strip” or —Cherokee Outlet.” Originally designated as county —K” its name means simply that.

Newkirk, the county seat, is home of the Kay County Courthouse, originally built in 1894 and replaced with the current stone courthouse in 1926. The economy of the county is based on petroleum wealth as well as productive agricultural land. Blackwell, the second largest city, is located in the midst of the rich Chikaskia River farmland.

Kaw Dam and Reservoir, part of the \$1.2 billion plan for the Arkansas River in Oklahoma and Arkansas, is located in Kay County. Other attractions include the 101 Ranch site, Pioneer Woman Statue and Museum, the Chilocco Indian School, Ponca City Cultural Center and Indian Museum, and the Marland Mansion, all in Ponca City. Annual events include the Iris Festival in April and the 101 Ranch Rodeo in August.

Kay County was once home to Territorial Governor William M. Jenkins and infamous outlaw Belle Starr. Three history books have been written about the county. They are: *Diamond Jubilee*, *The Last Run*, and *Keepsakes and Yesteryears*. Historical societies are located in Newkirk and Tonkawa. For more information, call the county clerk at (580) 362-2537.

County Seat – Newkirk

Area – 945.12 Square Miles

County Population – 45,638
(2007 est.)

Farms – 1,050

Land in Farms – 492,178 Acres

Primary Source: Oklahoma Almanac 2009-2010

See independent auditor’s report.

**KAY COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

COUNTY ASSESSOR

Carol Purdy

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

Tammy Reese

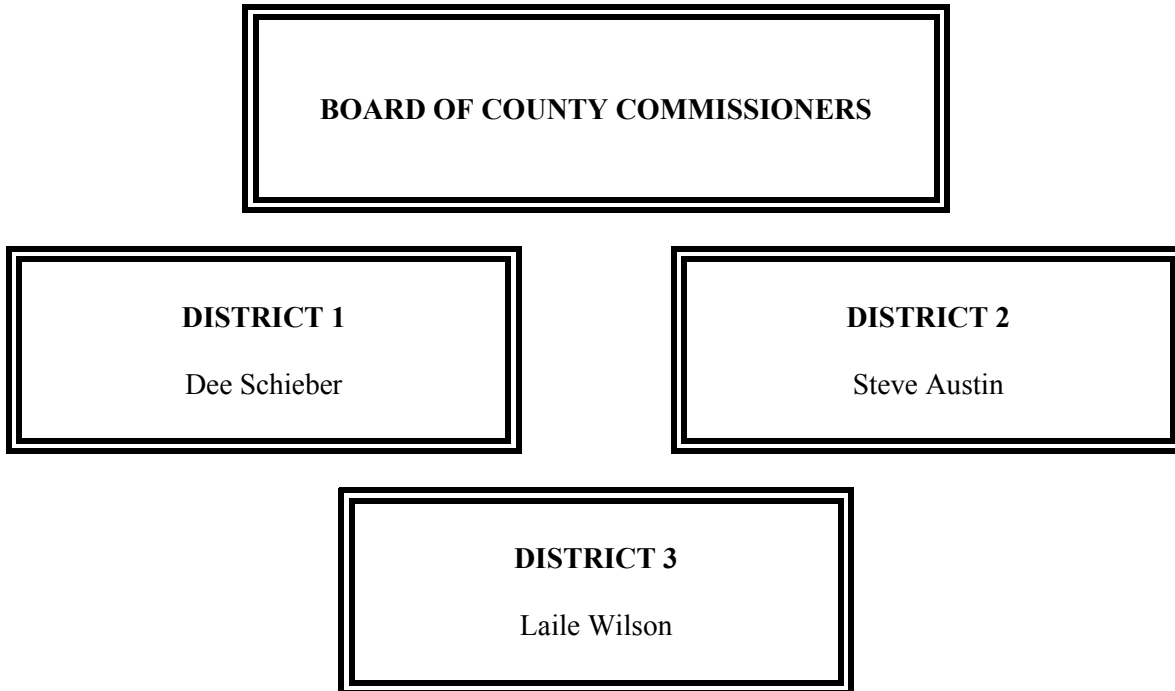
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

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.

**KAY COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**



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.

**KAY COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

COUNTY SHERIFF

Everette VanHoesen

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

Christy Kennedy

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.

See independent auditor's report.

**KAY COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

COURT CLERK

Mary Ramey

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.

DISTRICT ATTORNEY

Mark Gibson

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.

See independent auditor's report.

**KAY COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

ELECTION BOARD SECRETARY

Carol Kellum

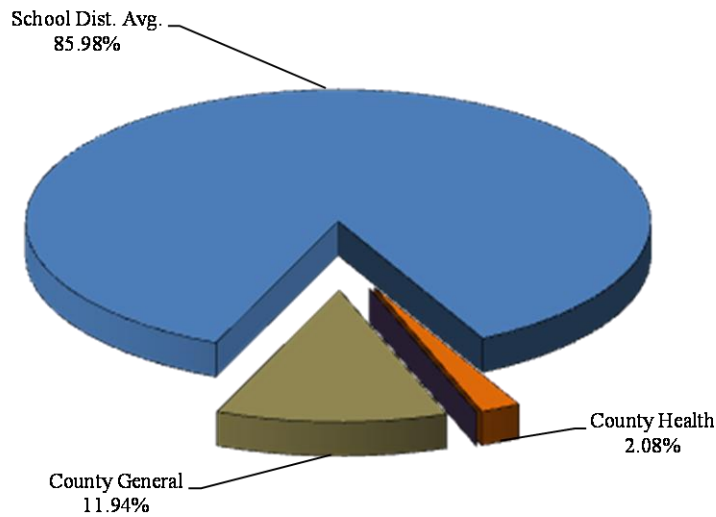
The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within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

See independent auditor's report.

**KAY COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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							
						Career			
			Gen.	Bldg.	Skg.	Tech	Common	Total	
County General	10.25								
County Health	1.79	Braman	I-18	36.04	5.15	7.63	15.23	4.10	68.15
		Peckman	D-27	35.95	5.14	13.55	15.23	4.10	73.97
		Newkirk	I-29	36.36	5.19	27.54	15.23	4.10	88.42
		Blackwell	I-45	36.10	5.16	35.31	15.23	4.10	95.90
		Kildare	D-50	36.48	5.21	5.44	15.23	4.10	66.46
		Ponca City	I-71	35.76	5.11	19.70	15.23	4.10	79.90
		Kaw City	D-84	36.32	5.19	0	15.23	4.10	60.84
		Tonkawa	I-87	36.11	5.16	24.89	15.23	4.10	85.49
		Noble-Joint	I-2	35.50	5.07	7.14	15.23	4.10	67.04
		Noble-Joint	I-4	36.22	5.17	3.81	15.23	4.10	64.53
		Osage-Joint	I-11	37.67	5.38	7.73	15.23	4.10	70.11
		Grant-Joint	J-95	35.67	5.10	5.09	15.23	4.10	65.19

See independent auditor's report.

**KAY COUNTY, OKLAHOMA
COMPUTATION OF LEGAL DEBT MARGIN
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Total net assessed value as of January 1, 2008		\$ 315,042,506
		<u>15,752,125</u>
Debt limit - 5% of total assessed value		15,752,125
Total bonds outstanding	-	
Total judgments outstanding	-	
Less cash in sinking fund	-	<u>-</u>
Legal debt margin		<u>\$ 15,752,125</u>

See independent auditor's report.

**KAY COUNTY, OKLAHOMA
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
VALUE AND NET BONDED DEBT PER CAPITA
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

	2009
Estimated population	45,638
Net assessed value as of January 1, 2008	\$ 315,042,506
Gross bonded debt	-
Less available sinking fund cash balance	-
Net bonded debt	\$ -
Ratio of net bonded debt to assessed value	0.00%
Net bonded debt per capita	\$ -

See independent auditor's report.

**KAY COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
 (UNAUDITED)**

Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2008	\$ 128,032,128	\$ 27,145,528	\$ 171,150,020	\$ 11,285,170	\$ 315,042,506	\$2,864,022,782

See independent auditor's report.

FINANCIAL SECTION



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405-521.3495 • Fax: 405-521.3426

Independent Auditor's Report

TO THE OFFICERS OF
KAY COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Kay County, Oklahoma, as of and for the year ended June 30, 2009, listed in the table of contents as the basic financial statement. This financial statement is the responsibility of Kay 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.

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 Kay County as of June 30, 2009, 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 Kay County, for the year ended June 30, 2009, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2011, on our consideration of Kay 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. 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. The schedule of expenditures of federal awards has not been subjected to the auditing procedures applied in the audit of the basic financial statement because management lacks sufficient documentation to support the schedule of expenditures of federal awards for the Disaster Grants – Public Assistance (97.036), and, accordingly, we express no opinion on the schedule of expenditures of federal awards. The other supplementary information, as listed in the table of contents, which includes the combining information referred to above, is presented for purposes of additional analysis, and is not a required part of the basic financial statement. The other 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.

A handwritten signature in blue ink, appearing to read "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

April 26, 2011

Basic Financial Statement

**KAY COUNTY, OKLAHOMA
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Beginning Cash Balances July 1, 2008	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2009
Combining Information:				
County General Fund	\$ 1,200,967	\$ 4,657,798	\$ 4,715,020	\$ 1,143,745
Highway Cash	1,592,491	4,929,228	4,390,873	2,130,846
County Sinking	1		1	
BIA - Road Projects	1,195	4,795,852	4,763,017	34,030
Visual Inspection Reimbursement	32,681	64,583	9,322	87,942
Visual Inspection Reimbursement Investment	50,000		50,000	
Payroll Tax (EFTPS)	7,494	909,175	908,268	8,401
Resale Property	225,085	137,023	125,851	236,257
County Health Department	351,681	611,809	389,454	574,036
Sheriff Jail Cash Fund	93,422	369,824	360,129	103,117
Sheriff Service Fee	69,898	230,852	219,623	81,127
Sheriff Commissary	7,280	12,448	15,882	3,846
Sheriff LLEBG Grant	209	3	212	
County Clerk Lien Fee	30,475	21,320	24,904	26,891
County Clerk Records Preservation Fee	49,373	54,002	64,773	38,602
County Treasurer Mortgage Tax Certification Fee	37,735	7,745	9,100	36,380
Sheriff Training	85	281		366
CSSP	4,826	1,944	1,690	5,080
LEPC Grant Cash Fund	5,821	3,000	5,098	3,723
Emergency Management Agency	13,107	44,895	51,906	6,096
Juvenile Accountability Incentive Block Grant	3,015			3,015
County Cash Improvement	3,897	7,226	6,168	4,955
Official Petty Cash	315			315
County Sales Tax		35,562	17,259	18,303
Combined Total - All County Funds	\$ 3,781,053	\$ 16,894,570	\$ 16,128,550	\$ 4,547,073

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

**KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 Kay County, Oklahoma. The financial statement referred to includes only the primary government of Kay County, Oklahoma and does not include financial information for any of the primary government's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the primary government. 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. Disbursements are for the general operations of the County.

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

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

BIA – Road Projects – accounts for funding received by Indian nations from the Bureau of Indian Affairs and disbursed to the County as a vendor for special road projects.

Visual Inspection Reimbursement – revenues are from entities who receive ad valorem taxes. Disbursements are for the re-valuation of county property.

**KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Visual Inspection Reimbursement Investment – Investment of VI reimbursement funds.

Payroll Tax (EFTPS) – account used to deposit and transfer employee payroll taxes to the I.R.S.

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

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

Sheriff Jail Cash Fund – revenues are from fees earned by the County for boarding other governments' prisoners in the county jail. Disbursements are for the operation of the county jail.

Sheriff Service Fee - accounts for the collection and disbursement of sheriff process service fees as restricted by statute.

Sheriff Commissary – revenues are from profits on commissary sales in the county jail. Disbursements are for jail improvement.

Sheriff LLEBG Grant – revenues are from the Department of Justice for a Local Law Enforcement Block Grant. Disbursements are for a deputy's salary.

County Clerk Lien Fee – revenues are from a fee charged by the County Clerk for recording instruments. Disbursements are for the maintenance and preservation of public records.

County Clerk Records Preservation – revenues are from a fee charged by the County Clerk for recording instruments. Disbursements are for the maintenance and preservation of public records.

County Treasurer 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 Training – revenues are from the sale of property forfeited in drug cases. Disbursements are for officer training, equipment and crime prevention.

CSSP – revenues are from state funds reimbursing the expenses of operating a Community Service Sentencing Program. Disbursements are for any activity or equipment needed for the people fulfilling community service sentences.

LEPC Grant Cash Fund – revenues are from a grant for the Local Emergency Planning Committee at Ponca City. Disbursements are for emergency planning.

**KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Emergency Management Agency – revenues are from state and federal funds. Disbursements are for emergency management expenses.

Juvenile Accountability Incentive Block Grant – revenues are from the U.S. Department of Justice. Disbursements are to strengthen and promote greater accountability in the Juvenile Justice System.

County Cash Improvement – revenues are from a county use tax. Disbursements are used to maintain the courthouse (pest control, heating and air, etc.)

Official Petty Cash – accounts for change funds held by various county offices.

County Sales Tax – revenues are for the acquisition, construction, and equipping of a new Kay County detention facility; existing jail renovations and operations; and operating and maintaining the Kay County Detention Facility.

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including school districts. 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. Any trust or agency funds maintained by the County are not included in this presentation.

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, a general fund and a county health department fund are the only funds required to adopt a formal budget. On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved for the respective fund by office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

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.

**KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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).

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.

All investments as classified by state statute are nonnegotiable certificates of deposit. Nonnegotiable certificates of deposit are not subject to interest rate risk or credit risk.

G. Compensated Absences

All full-time employees are entitled to vacation leave as provided by the elected official, but not to exceed the schedule as provided by statute. Vacation must be earned before it is taken. No vacation leave shall be accumulated beyond the accumulated limit. Upon separation, an employee will be paid for the balance of accrued annual leave up to the accumulation limit.

**KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Sick leave accrual rates are at the discretion of elected officials and may not exceed 45 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."

The assessed property value as of January 1, 2008, was approximately \$315,042,506.

Per Article 10, § 8A, with the repeal of personal property tax, the millages with the adjustment factor are 10.25 mills for general fund operations and 1.79 mills for county health department. In addition, the County collects the ad valorem taxes assessed by 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.

Current year tax collections for the year ended June 30, 2009, were approximately 97.76 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.

**KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 		

ACCO-SIG – The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating member chooses a deductible amount (\$10,000, \$25,000, or \$50,000). The County has chosen a \$25,000 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 County's deductible amount. The pool has acquired specific excess insurance with retention limits of \$250,000 for property claims and \$500,000 for general liability claims. The pool has acquired reinsurance in the amount of \$2,000,000 for general liability and \$50,000,000 per occurrence for property to cover claims that exceed the pool's retention limits. If claims exceed pool assets, the County could be liable for its share of the pool's deficit. 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, but have a one-time fee of 3% on all pieces of machinery acquired.

**KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 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 9.5% and 14.5% of earned compensation. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributes 14.5% of earned compensation for elected officials. The County's contributions to the Plan for the years ending June 30, 2009, 2008, and 2007, were \$480,342, \$419,352, and \$373,975, respectively, equal to the required contributions for each year.

2.5% Step-Up. Members have the option to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service.

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.

**KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

As of the end of the fiscal year, there were no claims or judgments that would have a material adverse effect on the financial condition of the County; however, the outcome of any lawsuit would not be determinable.

9. Sales Tax

Kay County voters passed a sales tax proposition on May 13, 2008. It authorizes levying a county excise (sales tax) of two-thirds (.6665) of one (1) cent. Sales tax is to be used for the acquisition, construction, and equipping a new Kay County detention facility; existing jail renovations and operations; and operating and maintaining the Kay County Detention Facility. A portion of the sales tax, one-third (.33325) of one (1) cent, shall have a limited duration of twenty (20) years from the date of commencement, or until principal and interest upon indebtedness incurred on behalf of Kay County by the Kay County Justice Facility Authority is paid in full.

OTHER SUPPLEMENTARY INFORMATION

KAY 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, 2009

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 1,200,967	\$ 1,200,967	\$ 1,200,967	\$ -
Less: Prior Year Outstanding Warrants	(120,305)	(120,305)	(120,305)	
Less: Prior Year Encumbrances	(43,795)	(43,795)	(34,919)	8,876
Beginning Cash Balances, Budgetary Basis	<u>1,036,867</u>	<u>1,036,867</u>	<u>1,045,743</u>	<u>8,876</u>
Receipts:				
Ad Valorem Taxes	2,989,987	2,989,987	2,776,699	(213,288)
Charges for Services	173,324	173,324	652,730	479,406
Intergovernmental Revenues	386,020	386,020	833,754	447,734
Miscellaneous Revenues	164,139	905,895	394,655	(511,240)
Total Receipts, Budgetary Basis	<u>3,713,470</u>	<u>4,455,226</u>	<u>4,657,838</u>	<u>202,612</u>
Expenditures:				
District Attorney - State	45,000	45,000	45,000	
Total District Attorney - State	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>	<u>-</u>
District Attorney - County	2,500	2,500	2,480	20
Total District Attorney - County	<u>2,500</u>	<u>2,500</u>	<u>2,480</u>	<u>20</u>
County Sheriff	1,084,600	1,127,034	1,127,034	
Total County Sheriff	<u>1,084,600</u>	<u>1,127,034</u>	<u>1,127,034</u>	<u>-</u>
County Treasurer	135,400	135,400	135,395	5
Total County Treasurer	<u>135,400</u>	<u>135,400</u>	<u>135,395</u>	<u>5</u>
County Commissioners	167,486	167,486	164,025	3,461
Total County Commissioners	<u>167,486</u>	<u>167,486</u>	<u>164,025</u>	<u>3,461</u>
County Commissioners O.S.U. Extension	113,760	113,760	112,706	1,054
Total County Commissioners O.S.U. Extension	<u>113,760</u>	<u>113,760</u>	<u>112,706</u>	<u>1,054</u>
County Clerk	163,655	175,962	170,598	5,364
Total County Clerk	<u>163,655</u>	<u>175,962</u>	<u>170,598</u>	<u>5,364</u>
Court Clerk	240,240	240,240	240,191	49
Total Court Clerk	<u>240,240</u>	<u>240,240</u>	<u>240,191</u>	<u>49</u>
County Assessor	149,305	149,305	145,427	3,878
Total County Assessor	<u>149,305</u>	<u>149,305</u>	<u>145,427</u>	<u>3,878</u>
Revaluation of Real Property	233,525	233,525	213,759	19,766
Total Revaluation of Real Property	<u>233,525</u>	<u>233,525</u>	<u>213,759</u>	<u>19,766</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.

KAY 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, 2009

continued from previous page

	Original Budget	Final Budget	Actual	Variance
Juvenile Shelter Bureau	18,000	21,500	6,000	15,500
Total Juvenile Shelter Bureau	18,000	21,500	6,000	15,500
District Court		56,645	56,645	
Total District Court	-	56,645	56,645	-
General Government	510,667	569,584	533,514	36,070
Total General Government	510,667	569,584	533,514	36,070
Excise - Equalization Board	5,200	5,250	4,695	555
Total Excise - Equalization Board	5,200	5,250	4,695	555
County Election Expense	113,100	119,759	119,364	395
Total County Election Expense	113,100	119,759	119,364	395
Insurance Benefits	1,620,795	1,820,541	1,211,261	609,280
Total Insurance Benefits	1,620,795	1,820,541	1,211,261	609,280
County Purchasing Agent	23,700	21,511	21,502	9
Total County Purchasing Agent	23,700	21,511	21,502	9
Data Processing	45,800	35,681	35,681	
Total Data Processing	45,800	35,681	35,681	-
Charity	2,500	2,500	700	1,800
Total Charity	2,500	2,500	700	1,800
Resale Payroll		59,755	59,755	
Total Resale Payroll	-	59,755	59,755	-
Unappropriated Court		314,051	314,051	
Total Unappropriated Court	-	314,051	314,051	-
County Audit Budget	58,104	58,104	40,897	17,207
Total County Audit Budget	58,104	58,104	40,897	17,207
Free Fair Budget Account	12,000	12,000	12,000	
Total Free Fair Budget Account	12,000	12,000	12,000	-

continued on next page

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

**KAY 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, 2009**

continued from previous page

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Provision for Interest on Warrants	<u>5,000</u>	<u>5,000</u>	<u>4,099</u>	<u>901</u>
Total Expenditures, Budgetary Basis	<u>4,750,337</u>	<u>5,492,093</u>	<u>4,776,779</u>	<u>715,314</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	926,802	<u>\$ 926,802</u>
Reconciliation to Statement of Receipts Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			65,432	
Add: Current Year Outstanding Warrants			151,511	
Ending Cash Balance			<u>\$ 1,143,745</u>	

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

KAY 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, 2009

	County Health Department Fund			
	Original	Final	Actual	Variance
	Budget	Budget		
Beginning Cash Balances	\$ 351,681	\$ 351,681	\$ 351,681	\$ -
Less: Prior Year Outstanding Warrants	(23,114)	(23,114)	(23,114)	
Less: Prior Year Encumbrances	(26,989)	(26,989)	(19,851)	7,138
Beginning Cash Balances, Budgetary Basis	<u>301,578</u>	<u>301,578</u>	<u>308,716</u>	<u>7,138</u>
Receipts:				
Ad Valorem Taxes	512,660	512,660	484,907	(27,753)
Charges for Services		39,479	124,773	85,294
Intergovernmental Revenues			2,129	2,129
Total Receipts, Budgetary Basis	<u>512,660</u>	<u>552,139</u>	<u>611,809</u>	<u>59,670</u>
Expenditures:				
Health and Welfare	599,238	638,717	402,986	235,731
Capital Outlay	215,000	215,000	33,752	181,248
Total Expenditures, Budgetary Basis	<u>814,238</u>	<u>853,717</u>	<u>436,738</u>	<u>416,979</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	483,787	<u>\$ 483,787</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Cancelled Warrants			159	
Add: Current Year Encumbrances			66,549	
Add: Current Year Outstanding Warrants			23,541	
Ending Cash Balance			<u>\$ 574,036</u>	

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

**KAY COUNTY, OKLAHOMA
DETAILED SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES—SINKING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

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

**KAY COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 interest earned on investments of cash not immediately required for debt service payments.

**KAY COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. DEPARTMENT OF INTERIOR</u>			
Direct Grant:			
Payments in Lieu of Taxes	15.226		\$ 46,232
Total U.S. Department of Interior			<u>46,232</u>
<u>NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION</u>			
Passed Through Oklahoma Highway Safety Office:			
State and Community Highway Safety	20.600	PT-03-13-01	6,500
Alcohol Impaired Driving Countermeasures Incentive Grant	20.601	K8-09-03-04-01	11,305
Total National Highway Traffic Safety Administration			<u>17,805</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION</u>			
Passed Through Oklahoma State Department of Civil Emergency Management:			
Interagency Hazardous Materials Public Sector Training and Planning Grant	20.703		8,451
Total U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration			<u>8,451</u>
<u>U.S. DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT</u>			
Passed Through Oklahoma State Department of Civil Emergency Management:			
Emergency Management Performance Grant (EMPG)	97.042	EMPG 03	10,644
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA 1775	139,581 *
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA 1803	325,637 *
Total CFDA #97.036			<u>465,218</u>
Total U.S. Department of Federal Emergency Management			<u>475,862</u>
Total Expenditures of Federal Awards			<u><u>\$ 548,350</u></u>

* Management lacked sufficient documentation to support the schedule of expenditures.

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

**KAY COUNTY, OKLAHOMA
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards has been prepared in conformity with the requirements set forth in the Single Audit Act of 1984, Public Law 98-502, the Single Audit Act Amendments of 1996, Public Law 104-156 and the Office of Management and Budget (OMB) Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*.

A. Reporting Entity

The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. The reporting entity is the primary government of Kay County as presented in the basic financial statement.

B. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Kay County, and is presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles, except as noted below:

1. Expenditures for FEMA Public Assistance 97.036, the only major federal program, are estimates based on the amount of FEMA funds disbursed to the County by Oklahoma Emergency Management (OEM).
2. The amount reported as ~~expenditures~~ for Payments in Lieu of Taxes is the amount received by the County ~~in lieu~~ of property taxes for federally owned property within the County.

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

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
KAY COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Kay County, Oklahoma, as of and for the year ended June 30, 2009, which comprises Kay County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated April 26, 2011. 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. 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 Kay County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kay County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying schedule of findings and questioned costs to be a material weakness in internal control over financial reporting. 2009-2

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. 2009-1, 2009-4, and 2009-8

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kay 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2009-6 and 2009-7.

We noted certain matters that we reported to the management of Kay County, which are included in Section 4 of the schedule of findings and questioned costs contained in this report.

Kay County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Kay County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, those charged with governance, others within the entity, and is not intended to be and should not be used by anyone other than the specified parties. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



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

April 26, 2011



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

TO THE OFFICERS OF
KAY COUNTY, OKLAHOMA

Compliance

We were engaged to audit the compliance of Kay 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 could have a direct and material effect on each of Kay County's major federal programs for the year ended June 30, 2009. Kay 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 Kay County's management.

As described in item 2009-10, in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of Kay County with the Disaster Grants – Public Assistance (97.036) regarding their compliance with the OMB Circular A-133's Matrix of Compliance Requirements, nor were we able to satisfy ourselves as to Kay County's compliance with those requirements by other auditing procedures.

Because of the effects of such noncompliance, with the requirements of the Disaster Grants – Public Assistance (97.036) regarding their compliance with the OMB Circular A-133's Matrix of Compliance Requirements, we were unable to apply other auditing procedures regarding the accuracy of its major federal program for the year ending June 30, 2009. The scope of our work was not sufficient to express, and we do not express, an opinion on Kay County's compliance with the requirements described in OMB *Circular A-133 Compliance Supplement* that are applicable to its major federal program.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-9 and 2009-10 to be material weaknesses.

Kay County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Kay County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, those charged with governance, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

A handwritten signature in blue ink, appearing to read "Gary A. Jones", with a long horizontal flourish extending to the right.

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

April 26, 2011

**KAY COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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
- Significant deficiency(ies) identified? Yes

Noncompliance material to financial statements noted?..... No

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: Disclaimer of Opinion

Any audit findings disclosed that are required to be reported
in accordance with section 510(a) of Circular A-133?..... Yes

Identification of Major Programs

CFDA Number(s)
97.036

Name of Federal Program or Cluster
Disaster Grants – Public Assistance
(Presidentially Declared Disasters)

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

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

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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 2009-1 – Disaster Recovery Plans, Strategic IT Plan, and Computer Usage Policies (Repeat Finding)

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support 4), information services function 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;
- Business resumption alternatives for all users for establishing alternative work locations once IT resources are available.

COBIT DS4.4 IT Continuity Plans states:

Encourage IT management to define and execute change control procedures to ensure that the IT continuity plan is kept up to date and continually reflects actual business requirements. Communicate changes in procedures and responsibilities clearly and in a timely manner.

COBIT PC5 Policy, Plans and Procedures states:

Define and communicate how all policies, plans and procedures that drive an IT process are documented, reviewed, maintained, approved, stored, communicated and used for training. Assign responsibilities for each of these activities and, at appropriate times, review whether they are executed correctly. Ensure that the policies, plans and procedures are accessible, correct, understood and up to date.

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COBIT PO1 states:

Define a strategic IT plan that satisfies the business requirement for IT of sustaining or extending the business strategy and governance requirements whilst being transparent about benefits, costs and risks.

Condition: The Sheriff does not have a written Disaster Recovery Plan that addresses how critical information and systems would be restored in the event of a disaster.

Effect: The failure to have a formal or updated Disaster Recovery Plan could result in the County being unable to function in the event of a disaster.

Recommendation: OSAI recommends the Sheriff develop a Disaster Recovery Plan.

Views of responsible officials and planned corrective actions:

Everette Van Hoesen, Kay County Sheriff –

As stated during my interview when asked about a disaster plan I responded no, as I was thinking that the question was in reference to a disaster relating to the Sheriff's Office service outside (Vehicle accident, Tornado, Large Fire). I did not realize the question was in reference to the computer system or office area being affected.

To correct this item I have obtained a Guideline for Disaster Recovery Plan and have started placing the information pertaining to the Sheriff's Office in the proper manner.

Finding 2009-2 – Segregation of Duties – Payroll (Repeat Finding)

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

Condition: A lack of segregation of duties exists in the County Clerk's office because one deputy collects payroll claims from the departments, enters payroll information including new hires into the system, checks the affidavit for accuracy, and prints and distributes payroll warrants.

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

Recommendation: OSAI recommends management be aware of these conditions 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 overseeing of office operations and a periodic review of operations. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a

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concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

Views of responsible officials and planned corrective actions: Management did not respond.

Finding 2009-4 – Bank Accounts not on General Ledger (Repeat Finding)

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, all banks identified with the County's tax identification number should be included on the general ledger.

Title 19 O.S. § 642 states in part:

The county treasurer shall keep a cash book, in which he shall enter an account of all money by him received...

Condition: Four bank accounts in the County's name and tax identification number (Citizens for County Jail, Kay County Court Clerk, Kay County Flood Plain Management, and Kay County Officers Association) were not on the Treasurer's general ledger at June 30, 2009.

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

Recommendation: OSAI recommends that bank accounts in the County's name, identified with the County's tax identification number be included on the general ledger. Should accounts not be the County's fund, then the County's tax identification needs to be removed from the account.

Views of responsible officials and planned corrective actions: Management did not respond.

Finding 2009-6 – Material Contracts (BIA) (Repeat Finding)

Criteria: Title 19 O.S. § 1505.C.3 states in part:

...In instances where it is impossible to ascertain the exact amount of the indebtedness sought to be incurred at the time of recording the encumbrance, an estimated amount may be used. No purchase order shall be valid unless signed by the county purchasing agent and certified by the county clerk.

Title 19 O.S. § 1505.E.10 states:

Upon receipt of an invoice, the county clerk shall compare the following documents: a. requisition, b. purchase order, c. invoice with noncollusion affidavit, as required by law, d. receiving report and e. delivery document.

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Title 19 O.S. § 1505.F.2. states in part:

The board of county commissioners shall consider the purchase orders presented and act upon the purchase orders, by allowing in full or in part or by holding for further information or disallowing the same. The disposition of purchase orders shall be indicated by the board of county commissioners, showing the amounts allowed or disallowed and shall be signed by at least two members of the board of county commissioners...

Requirements set forth by contracts made by and between the Bureau of Indian Affairs (BIA) and the Commissioners of Kay County are as follows:

The County shall provide, at its cost, professional engineering services for the development of the Plans, Specifications and Estimate (PS&E). The PS&E shall be developed in accordance with the State's Standard Specifications for Construction for Highways, Streets and Bridges and shall be subject to review and approval by the BIA and Federal Highway Administration (FHWA)...

The County will supervise and inspect all work performed by the construction contractor and will provide such engineering, inspection and testing services as may be required to ensure that the construction of the project is accomplished in accordance with the approved PS&E.

Upon completion of the Project, the County will issue a Notification of Completion to the BIA stating Project Completion.

Condition: The test of twenty seven (27) purchase orders pertaining to BIA projects revealed the following exceptions:

1. Notifications of Completion documents were not sent to the Bureau of Indian Affairs in five instances.
2. There was no documentation showing the use of a professional engineering company for PS&E or inspection and testing in two instances.

Effect: The County is not following procedures established by state statutes or contract provisions, which could result in undetected errors and in some instances could result in misappropriation of assets.

Recommendation: OSAI recommends management follow established purchasing procedures. Purchases should have adequate supporting documentation, be reviewed and approved by the County Clerk, and all contracts should be retained and reviewed for compliance with provisions.

Views of responsible officials and planned corrective actions: Management did not respond.

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Finding 2009-7 – Bid Test (Repeat Finding)

Criteria: Title 19 O.S. § 1501(3a) states in part:

...all purchases of \$10,000.00 or more require a one-time publication of bid.

Title 19 O.S. § 1505.B.2 states in part:

Bids shall be solicited by mailing a notice to all persons or firms who have made a written request of the county purchasing agent that they be notified of such bid solicitation and to all other persons or firms who might reasonably be expected to submit bids. Notice of solicitation of bids shall also be published one time in a newspaper of general circulation in the county. Notices shall be mailed and published at least ten (10) days prior to the date on which the bids are opened....

Condition: The audit of purchases for the County, that were greater than \$10,000, revealed the following exceptions:

- One instance where there was no bid for equipment for Dale Township Fire Department in the amount of \$30,572.00.

Effect: The County is not following procedures established by state statutes, which could result in undetected errors and in some instances could result in misappropriation of assets.

Recommendation: OSAI recommends management take steps to ensure that established bidding procedures are followed and that all documentation supporting the bids be maintained by the purchasing agent. Furthermore, OSAI recommends funds be encumbered prior to the ordering and/or receiving of goods and services as set forth in 19 O.S. § 1505.C, and to ensure funds are available for all purchases made.

Views of responsible officials and planned corrective actions: Management did not respond.

Finding 2009-8 – Time Records (Repeat Finding)

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, time records should be used to document hours worked and leave used each day. Time records should be submitted each pay period to the County Clerk's Office. Also, time records should be signed by the employee and the supervisor/county official certifying the validity of the hours worked and/or leave used.

Condition: While testing payroll time records, we noted the following:

1. Time records are not signed by an authorized person at District 1 and District 2.
2. Time records are not always signed by an authorized person at the Election Board and the Treasurer's Office.
3. Time sheets for full time employees are not submitted in the Sheriff's office.

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Effect: Inadequate documentation of employees' time could result in misappropriation of county funds.

Recommendation: OSAI recommends all County officials have properly approved time records to support the monthly payroll. Each employee's time record should reflect the hours worked each day, the compensatory time earned, taken or paid, and be approved by the County officer or supervisor.

Views of responsible officials and planned corrective actions:

Everette Van Hoesen, Kay County Sheriff –

As stated in my interview, Patrol Captain does a 28 day work schedule. The deputies and civilian employees both submit forms for vacation, holiday leave, and sick leave. Then Patrol Captain shows the time record and submits it to the County Clerk's Office then it goes to the County Treasurer for payment.

We in order to comply will start having the employee sign that their sheet reflects hours worked before being submitted for payment.

SECTION 3—Findings related to the Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.

Finding 2009-9 – FEMA – Schedule of Expenditures of Federal Awards (Repeat Finding)

PASS THROUGH GRANTOR: Oklahoma Department of Emergency Management

FEDERAL AGENCY: United States Department of Homeland Security

CFDA NO: 97.036

FEDERAL PROGRAM NAME: Disaster Grants - Public Assistance (Presidentially Declared Disasters)

FEDERAL AWARD YEAR: 2009

CONTROL CATEGORY: All

QUESTIONED COSTS: \$-0-

Criteria: *OMB A-133, Subpart C, §___.300* reads as follows:

Subpart C—Auditees

§___.300 Auditee responsibilities.

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310.

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Condition: The County has not designed and implemented formal internal controls for the reporting of its federal programs as required by OMB Circular A-133. Also, the County has not designed an accounting system or year-end process to accumulate and report its “in-kind” labor and equipment charges reported on the schedule of expenditures of federal awards.

Effect: This condition could result in misstatements on the Schedule of Expenditures of Federal Awards.

Recommendation: OSAI recommends the County establish internal controls to ensure all Federal awards are properly accounted for and reported on the Schedule of Expenditures of Federal Awards.

Views of responsible officials and planned corrective actions: Management did not respond.

Finding 2009-10 – FEMA Files – Documentation of Federal Expenditures (Repeat Finding)

FEDERAL AGENCY: United States Department of Homeland Security

CFDA NO: 97.036

FEDERAL PROGRAM NAME: Disaster Grants - Public Assistance (Presidentially Declared Disasters)

FEDERAL AWARD NUMBER: 1775, 1803

FEDERAL AWARD YEAR: 2009

CONTROL CATEGORY: All

QUESTIONED COSTS: \$137,602.92

Criteria: OMB Circular A-133§___.300 states that the auditee shall:

Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they are received. Maintain internal control over Federal programs that provided reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts of grant agreements that could have a material effect on each of its Federal programs.

FEMA Public Assistance Guide; Chapter 5, page 137, Project Management, Record Keeping states in part:

It is critical that the applicant establish and maintain accurate records of events and expenditures related to disaster recovery work...This information should include the completed PW; completed Special Considerations Questions form; estimated and actual costs; force account labor; force account equipment, materials, and purchases; photographs of damage, work underway, and work completed; insurance information; environmental and/or historic alternatives and hazard mitigation opportunities considered; environmental review documents; receipt and disbursement documents; and records of donated goods and services, if any.

Condition: Districts 1 was unable to provide adequate documentation to support the federal monies disbursed on disasters 1775 and 1803.

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Effect: The County is unable to document federal monies disbursed.

Recommendation: OSAI recommends Districts 1 maintain accurate records of events and expenditures related to disaster recovery work.

Views of responsible officials and planned corrective actions: Management did not respond.

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 2009-11 – Estimate of Needs

Criteria: The adopted budget is an expression of public policy and financial intent and is a method of providing controls over that intent. Effective internal controls as they relate to government entities financial reporting should assist in fulfilling government’s duty to be publicly accountable and should enable users’ access to that accountability by demonstrating whether resources were obtained and used in accordance with the entity’s adopted budget.

Condition: The examination of the Estimate of Needs for the General Fund revealed the following exceptions:

- The cash balance for the General Fund on the budget did not agree to the financial statements.
- Cash receipts and disbursements on the budget did not agree to receipts and disbursements adjusted for encumbrances on the financial statements.

Effect: These conditions could result in an incorrect Estimate of Needs.

Recommendation: OSAI recommends the County review the Estimate of Needs prior to approval to ensure that all amounts are accurately presented.

Views of responsible officials and planned corrective actions: Management did not respond.

Finding 2009-12 – Inmate Trust Account (Repeat Finding)

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, pre-numbered receipts should be issued for all inmate trust collections and all collections should be deposited daily. Also, disbursements should have disbursement authorizations.

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Title 19 O.S. § 531A. states:

Notwithstanding any other provisions of law, the county sheriff may establish a checking account, to be designated the "Inmate Trust Fund Checking Account", to be managed by the county sheriff and maintained separately from regular county funds. The checking account shall be subject to audit by the State Auditor and Inspector. The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account and may write checks to the Sheriff's Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate from unencumbered balances due the inmate upon his or her discharge.

Title 19 O.S. § 682 states in part:

...all monies received be issued a receipt and those funds received be deposited daily in the official depository under color of office.

Condition: Our examination of the Inmate Trust Account revealed the following exceptions:

- Receipts are not deposited daily.
- Receipts are not always issued in sequential order.
- There were 2 instances where money was not receipted in.

Effect: These conditions increase the risk of misappropriation of funds and are violations of state statutes.

Recommendation: OSAI recommends the Sheriff's Department implement policies and procedures to comply with 19 O.S. § 531.A and 19 O.S. § 682, and deposit daily all monies received under color of office. We also recommend that pre-numbered duplicate receipts be issued in chronological order for all inmate money received.

Views of responsible officials and planned corrective actions:

Everette Van Hoesen, Kay County Sheriff –

We have corrected the problems reported and make the deposits on a daily basis or when the bank is open.

Finding 2009-13 – Annual Commissary Report (Repeat Finding)

Criteria: Title 19 O.S. §180.43 states in part:

...each County Sheriff may operate, or contract the operation of, a commissary for the benefit of persons lawfully confined in the county jail under the custody of the County Sheriff. Any funds received pursuant to said operations shall be the funds of the County where the persons are incarcerated and shall be deposited in the Sheriff's Commissary Account. The Sheriff shall be permitted to expend the funds to improve or provide jail services. The Sheriff shall be permitted to expend any surplus in the Sheriff's Commissary Account for administering expenses for training equipment, travel or for capital expenditures. The claims for expenses shall be filed with and allowed by the

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Board of County Commissioners in the same manner as other claims. The Sheriff shall receive no compensation for the operation of said commissary. The Sheriff shall file an annual report on any said commissary under his or her operation no later than January 15 of each year. The State Auditor and Inspector shall conduct an audit of the report in the same manner as other public records of the County.

Condition: The County Sheriff has not filed an annual commissary report with the County Commissioners.

Effect: By not submitting an annual commissary report to the Board of County Commissioners, the Sheriff is not showing activity of the inmate trust account in accordance with state statutes.

Recommendation: OSAI recommends the Sheriff submit the annual commissary report to the County Commissioners.

Views of responsible officials and planned corrective actions:

Everette Van Hoesen, Kay County Sheriff –

As stated in my interview, we now submit an annual commissary report.

Finding 2009-14 – Inmate Trust Reconciliations (Repeat Finding)

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, a reconciliation should be reviewed and approved by someone other than the preparer.

Condition: Based on test work performed, it appears the reconciliation for the inmate trust account is not reviewed and approved by someone other than the preparer.

Effect: By failing to have reconciliations reviewed and approved, the risk of misstatement or misappropriation in this account increases.

Recommendation: OSAI recommends that the monthly bank reconciliations for the inmate trust account be reviewed and approved by someone other than the preparer and that evidence of review is documented.

Views of responsible officials and planned corrective actions: Management did not respond.

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Finding 2008-10 – FEMA

CFDA: 97.036

Federal Program: Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Funding Agency: U.S. Department of Homeland Security

Finding Summary: The County has not designed and implemented formal internal controls for the reporting of its federal programs as required by OMB Circular A-133. Also, the County has not designed an accounting system or year-end process to accumulate and report its “in-kind” labor and equipment charges reported on the schedule of expenditures of federal awards.

Status: Not corrected. The FY2008 and FY2009 reports were issued simultaneously; therefore the client had no opportunity to take corrective action.

Finding 2008-11 – FEMA Files – Documentation of Federal Expenditures

CFDA: 97.036

Federal Program: Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Funding Agency: U.S. Department of Homeland Security

Finding Summary: Districts 1 and 2 were unable to provide adequate documentation to support the federal monies disbursed on disasters.

Status: Not corrected. The FY2008 and FY2009 reports were issued simultaneously; therefore the client had no opportunity to take corrective action.



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