

COUNTY AUDIT

# KAY COUNTY

For the fiscal year ended June 30, 2015



*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, 2015**

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# Oklahoma State Auditor & Inspector

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

February 29, 2016

TO THE CITIZENS OF  
KAY COUNTY, OKLAHOMA

Transmitted herewith is the audit of Kay County, Oklahoma for the fiscal year ended June 30, 2015. The audit was conducted in accordance with 19 O.S. § 171.

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,

A handwritten signature in blue ink that reads "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

**KAY COUNTY, OKLAHOMA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**TABLE OF CONTENTS**

INTRODUCTORY SECTION (Unaudited)

Statistical Information.....	iii
County Officials.....	iv
Ad Valorem Tax Distribution.....	v
Sales Tax Distribution.....	vi
Assessed Value of Property Trend Analysis.....	vii
County Payroll Expenditures Analysis.....	viii
County General Fund Analysis.....	ix
County Highway Fund Analysis.....	x

FINANCIAL SECTION

Report of State Auditor and Inspector.....	1
Financial Statement:	
Statement of Receipts, Disbursements, and Changes in Cash Balances—Regulatory Basis (with Combining Information)—Major Funds.....	4
Notes to the Financial Statement.....	5

OTHER SUPPLEMENTARY INFORMATION

Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—General Fund.....	10
Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—County Health Department Fund.....	11
Combining Statement of Receipts, Disbursements, and Changes in Cash Balances—Regulatory Basis—Remaining Aggregate Funds.....	12
Notes to Other Supplementary Information.....	13
Schedule of Expenditures of Federal Awards.....	15
Note to the Schedule of Expenditures of Federal Awards.....	16

**KAY COUNTY, OKLAHOMA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**INTERNAL CONTROL AND COMPLIANCE SECTION**

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*..... 17

Independent Auditor's Report on Compliance for Each Major Program  
and on Internal Control Over Compliance Required by OMB Circular A-133 ..... 19

Schedule of Findings and Questioned Costs..... 22

Schedule of Prior Year Findings and Questioned Costs ..... 38

**ITEMS OF INTEREST**

**Finding 2015-1 – Inadequate Internal Controls and Noncompliance Over County Sales Tax (Repeat Finding):** As of June 30, 2014, sales tax collections in the amount of \$3,074,413 which were dedicated for the extinguishment of debt as approved on the sales tax ballot were improperly remitted to the Kay County Justice Authority and used for the operation of the jail. This amount includes cumulative collections from fiscal year 2009 to the current period. **(Pg. 23)**

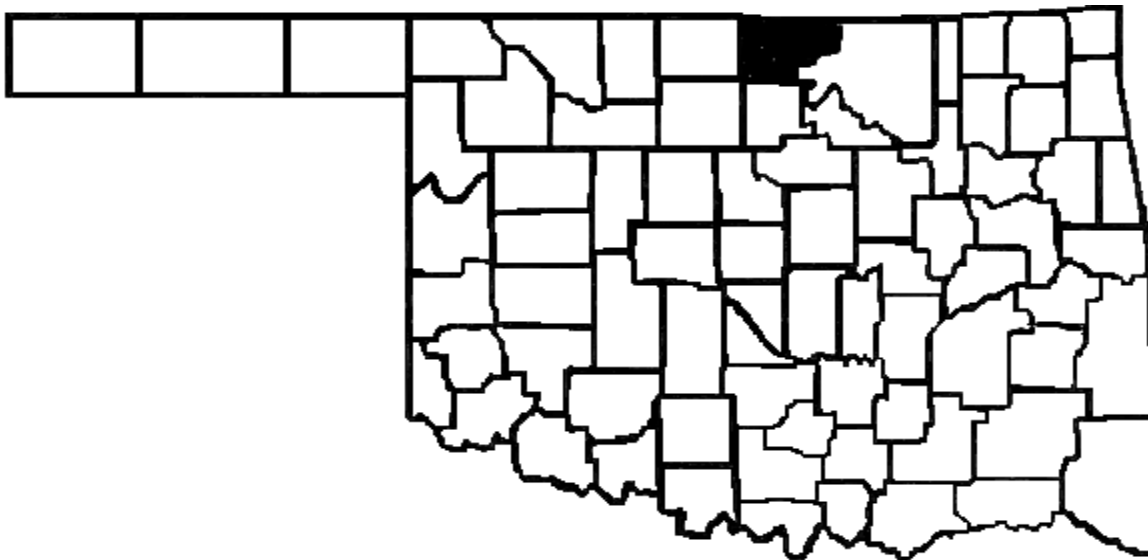
**Finding 2015-3 – Inadequate Internal Controls and Noncompliance with State Statutes Regarding Acceptance of Bids (Repeat Finding):** Bids received by the Board of County Commissioners for commonly-used goods and services were tabled for one week, and then all submitted bids were accepted as opposed to “lowest and best” as required per statute. Additionally, piecemeal bids of commonly-used goods and services were used to award entire projects without a project bidding process. Such a practice allowed vendors to provide goods and services for which it had not bid and/or to subcontract with non-bidders or other bidders that were not the lowest bidders. **(Pg. 26)**

**Finding 2015-8 - Inadequate Internal Controls and Noncompliance Over Major Programs – BIA (Repeat Finding):** Bureau of Indian Affairs grant projects in the amount of \$1,092,473 were not competitively bid in accordance with the Public Competitive Bidding Act. Further, documentation was not available to fully substantiate the expenditures submitted for reimbursement. **(Pg. 34)**

**INTRODUCTORY SECTION  
UNAUDITED INFORMATION ON PAGES iii - ix  
PRESENTED FOR INFORMATIONAL PURPOSES ONLY**

**KAY COUNTY, OKLAHOMA  
STATISTICAL INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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Located in the 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, the county’s largest community. 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 – 45,478  
(2014 est.)

Farms – 993

Land in Farms – 484,179 Acres

Primary Source: Oklahoma Almanac 2015-2016

**Board of County Commissioners**

District 1 – Vance Johnson  
District 2 – Jason Shanks  
District 3 – Paul Skidmore

**County Assessor**

Susan Keen

**County Clerk**

Tammy Reese

**County Sheriff**

Everette Van Hoesen

**County Treasurer**

Christy Kennedy

**Court Clerk**

Marilee Thornton

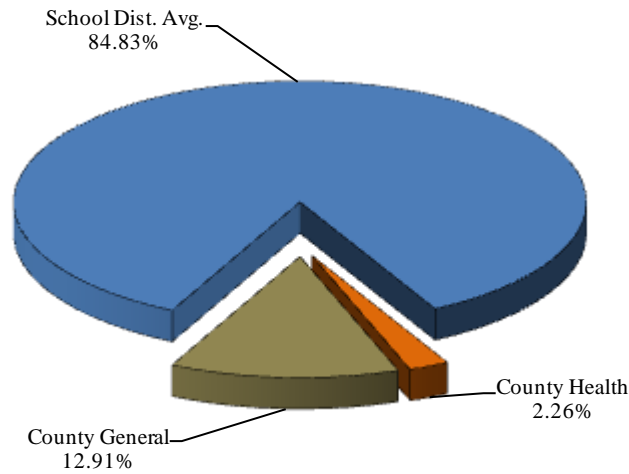
**District Attorney**

Brian Hermanson



**KAY COUNTY, OKLAHOMA  
AD VALOREM TAX DISTRIBUTION  
SHARE OF THE AVERAGE MILLAGE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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.



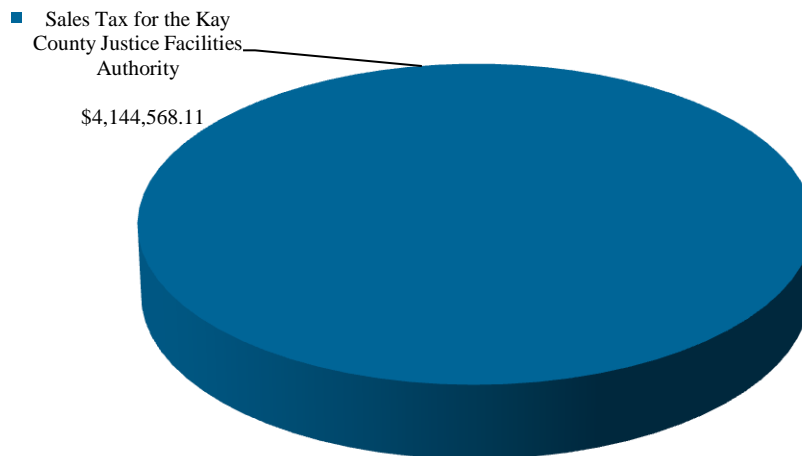
County-Wide Millages		School District Millages							
				Gen.	Bldg.	Sk.	Career Tech	Common	Total
County General	10.22								
County Health	2.55	Braman	I-125	36.04	5.15	29.95	15.23	4.10	90.47
		Peckham	D-27	35.95	5.14	7.09	15.23	4.10	67.51
		Newkirk	I-125	36.36	5.19	29.95	15.23	4.10	90.83
		Blackwell	I-45	36.10	5.16	18.57	15.23	4.10	79.16
		Kildare	D-50	36.48	5.21	6.29	15.23	4.10	67.31
		Ponca City	I-71	35.76	5.11	21.93	15.23	4.10	82.13
		Kaw City/Shidler	J-11K	36.32	5.19	-	15.23	4.10	60.84
		Tonkawa	I-87	36.11	5.16	19.04	15.23	4.10	79.64
		Noble-Joint	I-2	35.50	5.07	-	15.23	4.10	59.90
		Noble-Joint	I-4	36.22	5.17	7.06	15.23	4.10	67.78
		Osage-Joint	J-11	37.67	5.38	-	15.23	4.10	62.38
		Grant-Joint	J-95	35.67	5.10	-	15.23	4.10	60.10

## Sales Tax

### Sales Tax of May 13, 2008

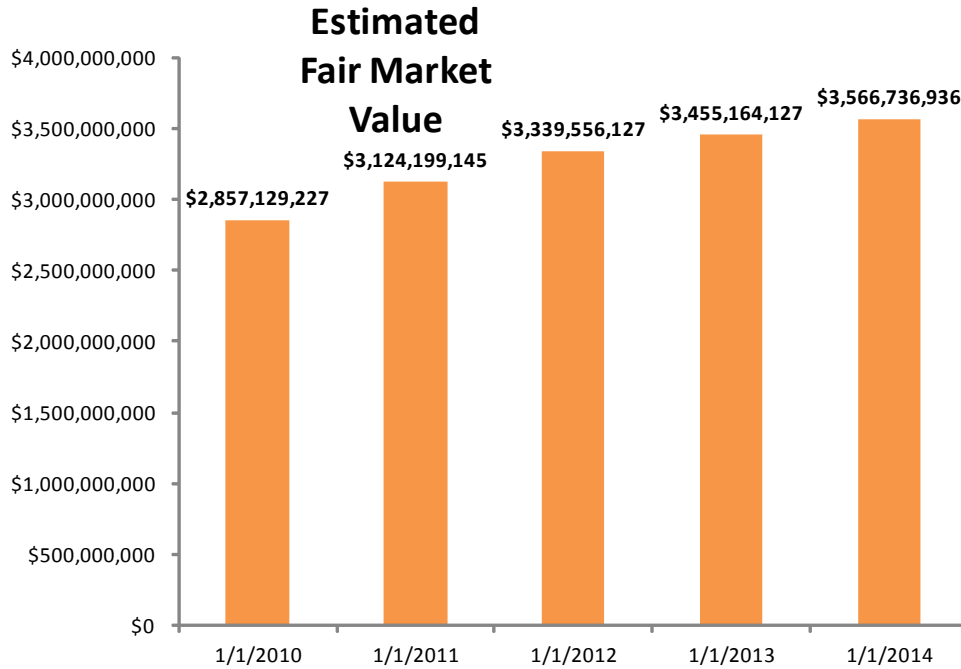
The voters of Kay County approved a two-thirds percent (2/3%) sales tax effective October 1, 2008. This sales tax was established to provide revenue for the acquisition, construction, and equipping of the new Kay County Juvenile Facilities Authority (JFA). A portion of the sales tax, one-third (.33325) of one cent, shall have a limited duration of twenty years from the date of commencement, or until principal and interest upon indebtedness incurred on behalf of Kay County by the JFA is paid in full. The second one-third (.33325) of one percent is for Maintenance and Operations of the JFA. These funds are accounted for in the County Sales Tax fund.

During the fiscal year the County collected \$4,144,568.11 in total sales tax.



**KAY COUNTY, OKLAHOMA  
 ASSESSED VALUE OF PROPERTY  
 TREND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

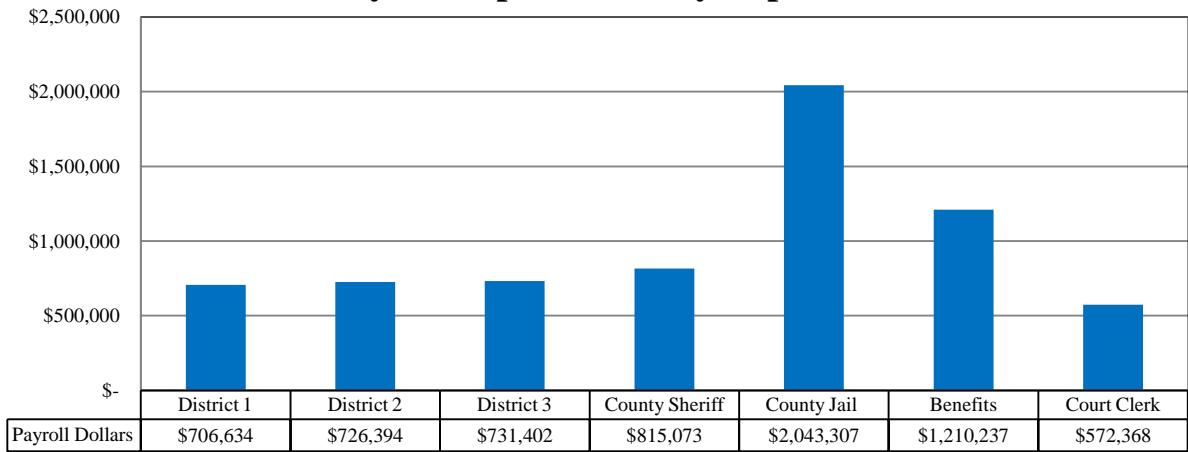
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2014	\$165,105,292	\$54,674,439	\$182,960,676	\$10,399,344	\$392,341,063	\$3,566,736,936
1/1/2013	\$162,732,232	\$48,550,208	\$179,246,233	\$10,460,619	\$380,068,054	\$3,455,164,127
1/1/2012	\$149,679,958	\$52,703,858	\$175,578,304	\$10,610,946	\$367,351,174	\$3,339,556,127
1/1/2011	\$129,737,180	\$53,754,167	\$171,207,830	\$11,037,271	\$343,661,906	\$3,124,199,145
1/1/2010	\$123,604,864	\$29,623,448	\$172,211,487	\$11,155,584	\$314,284,215	\$2,857,129,227



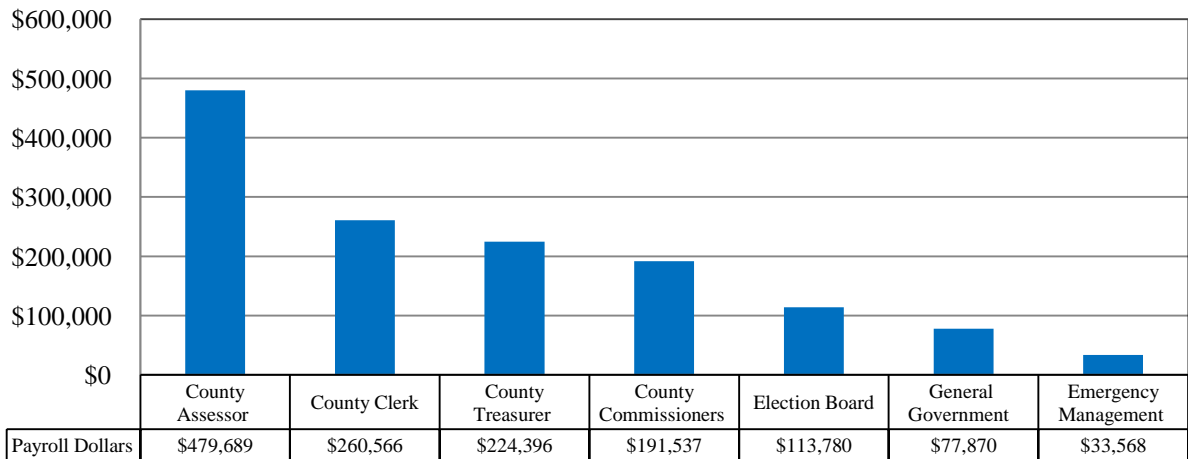
**KAY COUNTY, OKLAHOMA  
COUNTY PAYROLL EXPENDITURES ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

County officers' salaries are based upon the assessed valuation and population of the counties. State statutes provide guidelines for establishing elected officers' salaries. The Board of County Commissioners sets the salaries for all elected county officials within the limits set by the statutes. The designated deputy or assistant's salary cannot exceed the principal officer's salary. Salaries for other deputies or assistants cannot exceed the principal officer's salary. The information presented below is for the fiscal year ended June 30, 2015.

**Payroll Expenditures by Department**



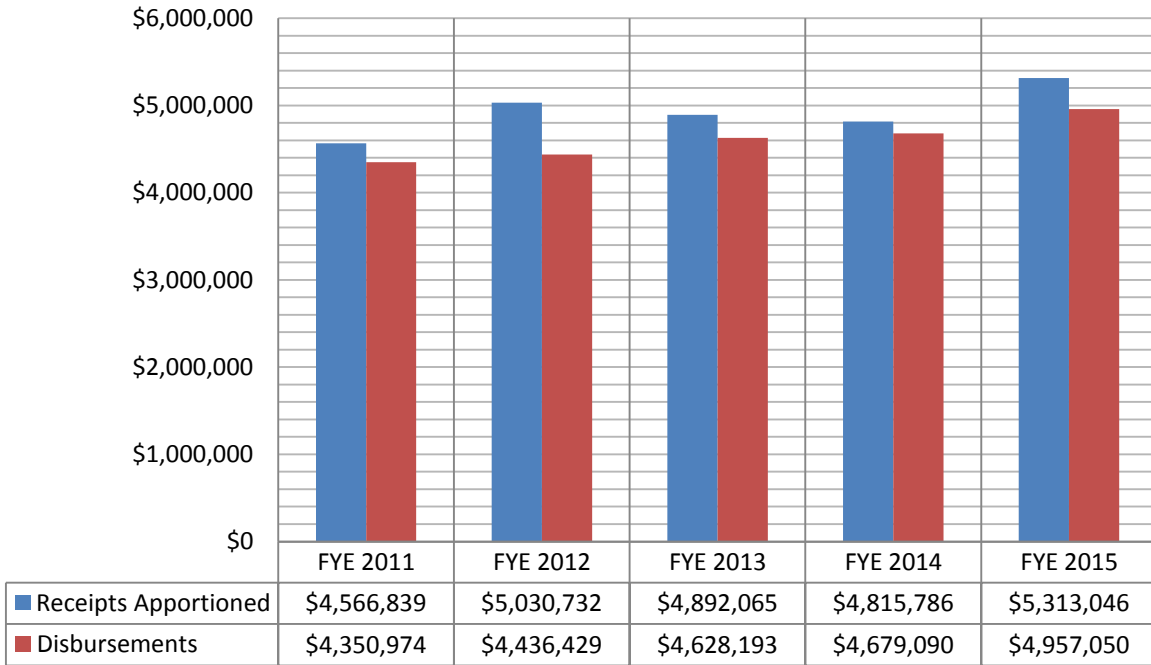
**Payroll Expenditures by Department**



**KAY COUNTY, OKLAHOMA  
COUNTY GENERAL FUND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

## County General Fund

The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also provides revenue for various budget accounts and accounts that support special services and programs. The Board of County Commissioners must review and approve all expenditures made from the County General Fund. The primary revenue source for the County General Fund is usually the county’s ad valorem tax collected on real, personal (if applicable), and public service property. Smaller amounts of revenue can come from other sources such as fees, sales tax, use tax, state transfer payments, in-lieu taxes, and reimbursements. The chart below summarizes receipts and disbursements of the County’s General Fund for the last five fiscal years.

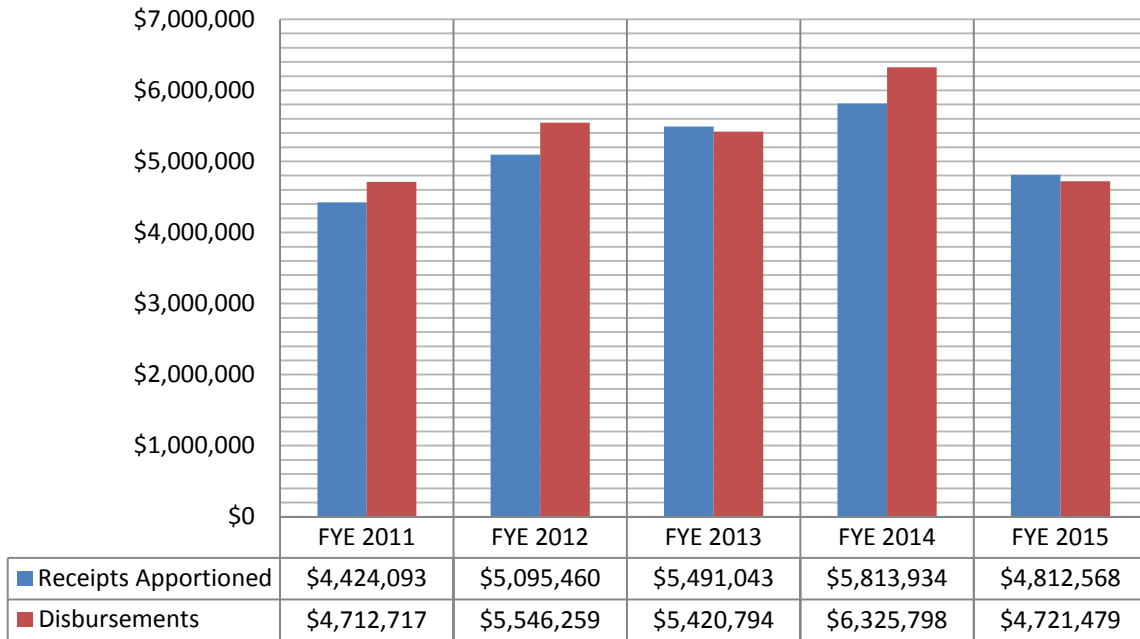


**KAY COUNTY, OKLAHOMA  
COUNTY HIGHWAY FUND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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## County Highway Fund

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. The chart below summarizes receipts and disbursements of the County's Highway Fund for the last five fiscal years.



**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

### *Report on the Financial Statement*

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, 2015, listed in the table of contents as the financial statement.

### *Management's Responsibility for the Financial Statement*

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the regulatory basis of accounting described in Note 1, and for determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statement, the financial statement is prepared by Kay County using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### ***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Kay County as of June 30, 2015, or changes in its financial position for the year then ended.

### ***Opinion on Regulatory Basis of Accounting***

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 balances for all county funds of Kay County, for the year ended June 30, 2015, on the basis of accounting described in Note 1.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the combined total of all county funds on the financial statement. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the remaining Other Supplementary Information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statement.

The Schedule of Expenditures of Federal Awards and the Other Supplementary Information, as listed in the table of contents, is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statement. Such 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 or to the financial statement itself, 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 and the Other Supplementary Information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the combined total—all county funds.

The information listed in the table of contents under Introductory Section has not been subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2016, 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 in considering Kay County's internal control over financial reporting and compliance.

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

February 24, 2016

**REGULATORY BASIS FINANCIAL STATEMENT**

**KAY COUNTY, OKLAHOMA**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES—REGULATORY BASIS**  
**(WITH COMBINING INFORMATION)—MAJOR FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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	Beginning Cash Balances July 1, 2014	Receipts Apportioned	Transfers In	Transfer Out	Disbursements	Ending Cash Balances June 30, 2015
Combining Information:						
Major Funds:						
County General Fund	\$ 2,358,286	\$ 5,313,046	\$ -	\$ -	\$ 4,957,050	\$ 2,714,282
Highway Cash	1,308,124	4,812,568	208,666	13,979	4,721,479	1,593,900
BIA - Road Projects	46,388	1,545,441	8,279	131,584	1,306,458	162,067
Highway CBRIF	152,567	329,775	24,647	96,029	257,136	153,824
County Health Department	754,935	783,269	-	-	873,213	664,991
County Sales Tax	3,584,343	6,959,957	-	-	7,505,308	3,038,992
Sheriff JAG Grant Fund	50	2,750	-	-	2,750	50
Remaining Aggregate Funds	1,808,175	1,169,215	-	-	677,720	2,299,670
<b>Combined Total - All County Funds</b>	<u>\$ 10,012,868</u>	<u>\$ 20,916,021</u>	<u>\$ 241,592</u>	<u>\$ 241,592</u>	<u>\$ 20,301,114</u>	<u>\$ 10,627,776</u>

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, 2015**

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**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

Kay County is a subdivision of the State of Oklahoma created by the Oklahoma Constitution and regulated by Oklahoma Statutes.

The accompanying financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds under the control of the primary government. 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, where its use is restricted for a specified purpose. Other funds established by statute and under the control of the primary government are also presented.

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including school districts, and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement; those funds play no part in the County's operations. Any trust or agency funds maintained by the County are not included in this presentation.

**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 county funds included as combining information within the financial statement:

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

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

BIA – Road Projects – accounts for revenues from the Bureau of Indian Affairs for road improvements.

Highway CBRIF – accounts for County Commissioners' bridge and road funds and disbursements are for bridge and road projects.

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

County Sales Tax – accounts for collections from the Kay County Justice Facilities Authority and the disbursements are for the operation of the County Jail.

**KAY COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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Sheriff JAG Grant Fund – accounts for the receipt and disbursement of funds from state and local governments for the purpose of equipment for the Sheriff’s office.

**C. Basis of Accounting**

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

Title 19 O.S. § 171 specifies the format and presentation for Oklahoma counties to present their financial statement in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or on a regulatory basis. The County has elected to present their financial statement on a regulatory basis in conformity with Title 19 O.S. § 171. County governments (primary only) are required to present their financial statements on a fund basis format with, at a minimum, the general fund and all other county funds, which represent ten percent or greater of total county revenue. All other funds included in the audit shall be presented in the aggregate in a combining statement.

**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.

**E. Cash and Investments**

For the purposes of financial reporting, “Ending Cash Balances, June 30” includes cash and cash equivalents and investments as allowed by statutes. 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).

**KAY COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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The County Treasurer has been authorized by the County's governing board to make investments. Allowable investments are outlined in statutes 62 O.S. § 348.1 and § 348.3.

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.

**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."

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.

**3. Other Information**

**A. 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.

**KAY COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**B. 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.

**C. Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in management's opinion, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

**D. Sales Tax**

The voters of Kay County approved a two-thirds percent (2/3%) sales tax effective October 1, 2008. This sales tax was established to provide revenue for the acquisition, construction, and equipping of the new Kay County Juvenile Facilities Authority (JFA). A portion of the sales tax, one-third (.33325) of one cent, shall have a limited duration of twenty years from the date of commencement, or until principal and interest upon indebtedness incurred on behalf of Kay County by the JFA is paid in full. The second one-third (.33325) of one percent is for Maintenance and Operations of the JFA. These funds are accounted for in the JFA Gross Revenue Fund.

**E. Interfund Transfers**

During the fiscal year, the County made the following transfers between cash funds.

- \$112,637 was transferred from BIA – Road Projects fund to the Highway Cash fund to reimburse Highway Cash for road and bridge projects.
- \$18,947 was transferred from BIA – Road Projects fund to the Highway CBRIF fund to reimburse Highway CBRIF for road and bridge projects.
- \$8,279 was transferred from the Highway Cash fund to BIA – Road Projects fund to reimburse BIA – Road Projects for road and bridge projects.
- \$5,700 was transferred from Highway Cash fund to the Highway CBRIF fund to reimburse Highway CBRIF for road and bridge projects.



**KAY COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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- \$96,029 was transferred from Highway CBRIF fund to the Highway Cash fund to reimburse Highway Cash for road and bridge projects.

**F. Special Items**

**Investigative Audit**

The State Auditor and Inspector's office conducted a special investigative audit of the Kay County Board of County Commissioners in connection with allegations of improper bidding and vendor preference. The report was released December 2, 2015 and is on our website at [www.sai.ok.gov](http://www.sai.ok.gov).

The State Auditor and Inspector's office will be conducting a special investigative audit of the Kay County Detention Center in connection with possible misappropriation of funds by an employee.

**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, 2015**

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 2,358,286	\$ 2,358,286	\$ -
Less: Prior Year Outstanding Warrants	(139,499)	(139,499)	-
Less: Prior Year Encumbrances	(78,540)	(78,540)	-
Plus: Lapsed Balance	-	9,259	9,259
Beginning Cash Balances, Budgetary Basis	<u>2,140,247</u>	<u>2,149,506</u>	<u>9,259</u>
Receipts:			
Ad Valorem Taxes	3,541,543	3,572,146	30,603
Charges for Services	165,845	201,671	35,826
Intergovernmental Revenues	425,646	915,946	490,300
Miscellaneous Revenues	71,652	622,412	550,760
Supplemental Appropriations	328,829	-	(328,829)
Non-Revenue Receipts	-	871	871
Total Receipts, Budgetary Basis	<u>4,533,515</u>	<u>5,313,046</u>	<u>779,531</u>
Expenditures:			
District Attorney	95,750	95,750	-
County Sheriff	967,488	966,668	820
County Treasurer	239,584	239,023	561
County Commissioners	192,768	191,978	790
OSU Extension	139,618	134,916	4,702
County Clerk	203,170	199,835	3,335
Court Clerk	315,887	308,248	7,639
County Assessor	174,917	167,006	7,911
Revaluation of Real Property	331,210	319,814	11,396
District Court	56,088	56,088	-
General Government	576,479	463,898	112,581
Excise-Equalization Board	5,200	3,910	1,290
County Election Board	152,475	130,039	22,436
Insurance - Benefits	2,673,356	1,210,237	1,463,119
Purchasing Agent	40,405	39,161	1,244
Data Processing	45,800	43,104	2,696
Courthouse Security	27,200	27,200	-
Charity	5,000	4,000	1,000
Unapportioned Court	264,120	264,120	-
County Audit Budget Account	87,607	50,479	37,128
Free Fair Budget Account	32,000	32,000	-
Emergency Management	47,640	39,593	8,047
Total Expenditures, Budgetary Basis	<u>6,673,762</u>	<u>4,987,067</u>	<u>1,686,695</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>2,475,485</u>	<u>\$ 2,475,485</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		1,114	
Add: Current Year Outstanding Warrants		168,114	
Add: Current Year Encumbrances		69,569	
Ending Cash Balance		<u>\$ 2,714,282</u>	

**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, 2015**

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	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	754,935	754,935	\$ -
Less: Prior Year Outstanding Warrants	(13,600)	(13,600)	-
Less: Prior Year Encumbrances	(49,213)	(49,213)	-
Plus: Lapsed Balance	-	7,122	7,122
Beginning Cash Balances, Budgetary Basis	692,122	699,244	7,122
Receipts:			
Ad Valorem Taxes	618,475	623,685	5,210
Charges for Services	-	101,726	101,726
Intergovernmental Revenues	-	56,912	56,912
Miscellaneous Revenues	101,726	946	(100,780)
Total Receipts, Budgetary Basis	720,201	783,269	63,068
Expenditures:			
Health and Welfare	1,412,323	950,596	461,727
Total Expenditures, Budgetary Basis	1,412,323	950,596	461,727
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	531,917	\$ 531,917
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		59,733	
Add: Current Year Outstanding Warrants		73,341	
Ending Cash Balance		\$ 664,991	

**KAY COUNTY, OKLAHOMA**  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES—REGULATORY BASIS—**  
**REMAINING AGGREGATE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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	Beginning Cash Balances July 1, 2014	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2015
Remaining Aggregate Funds:				
Resale Property	\$ 612,231	\$ 230,691	\$ 253,083	\$ 589,839
Sheriff Commissary	14	-	-	14
County Clerk Lien Fee	111,027	20,911	8,149	123,789
County Clerk Preservation Fee	80,674	58,545	18,359	120,860
County Treasurer Mortgage Certification Fee	44,807	7,230	3,710	48,327
Sheriff Training	17,069	-	1,475	15,594
Local Emergency Planning Committee Grant	7,376	-	125	7,251
Emergency Management Agency	1	-	-	1
Juvenile Accountability Incentive Block Grant	3,015	-	-	3,015
County Cash Improvement	4,144	2	-	4,146
Community Service Sentencing Program	1,231	-	-	1,231
Visual Inspection Reimbursement Investment	97,058	11,515	13,625	94,948
Sheriff Jail Cash Fund	5,605	-	-	5,605
Sheriff Service Fee	170,695	310,234	305,628	175,301
Open Dumping Reward	4,987	587	-	5,574
Use Tax Fund	648,241	529,500	73,566	1,104,175
<b>Combined Total - Remaining Aggregate Funds</b>	<b>\$ 1,808,175</b>	<b>\$ 1,169,215</b>	<b>\$ 677,720</b>	<b>\$ 2,299,670</b>

**KAY COUNTY, OKLAHOMA  
NOTES TO OTHER SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**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. Remaining County Funds**

Remaining aggregate funds as presented on the financial statement are as follows:

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

Sheriff Commissary – accounts for profits on commissary sales in the County jail and disbursements for the fund are restricted by statute.

County Clerk Lien Fee – accounts for lien collections and disbursements as restricted by statute.

County Clerk Preservation Fee – accounts for fees charged by the County Clerk for recording instruments and disbursements are for the maintenance and preservation of public records.

County Treasurer Mortgage Certification Fee – accounts for the collection of fees by the County Treasurer for mortgage tax certificates and disbursements of funds as restricted by statute.

Sheriff Training – accounts for collections from the sale of property forfeited in drug cases and disbursements are for the officer training, equipment, and crime prevention.

Local Emergency Planning Committee Grant – accounts for grant monies received for the Local Emergency Planning Committee at Ponca City and disbursements are for emergency planning.

**KAY COUNTY, OKLAHOMA  
NOTES TO OTHER SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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Emergency Management Agency – accounts for the receipt and disbursement of funds from state and local governments for civil defense purposes.

Juvenile Accountability Incentive Block Grant – accounts for the receipt and disbursement of funds from the U.S. Department of Justice to promote and strengthen greater accountability in the Juvenile Justice System.

County Cash Improvement – accounts for use tax collections and disbursements are used to maintain the courthouse (pest control, heat and air, etc.).

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

Visual Inspection Reimbursement Investment – accounts for the investment of visual inspection reimbursement funds.

Sheriff Jail Cash Fund – accounts for the monies received from the State of Oklahoma for the boarding and feeding of Department of Correction prisoners.

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

Open Dumping Reward – accounts for the monies collected from fines imposed for littering and disbursed to citizens involved in the reporting of littering offenses.

Use Tax Fund – accounts for revenues from sales tax charged to out-of-county vendors on in-county sales. Disbursements are for any legal expense of the County.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**KAY COUNTY, OKLAHOMA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b><u>U.S. DEPARTMENT OF DEFENSE</u></b>			
Passed Through State Treasurer			
Flood Control Projects	12.106		\$ 13,951
Total U.S. Department of Defense			<u>13,951</u>
<b><u>U.S. DEPARTMENT OF INTERIOR</u></b>			
Direct Grant:			
Payments in Lieu of Taxes	15.226		91,144
Total U.S. Department of Interior			<u>91,144</u>
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
Passed Through the City of Ponca City:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		4,820
Total U.S. Department of Justice			<u>4,820</u>
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>			
<b>Federal Highway Administration</b>			
Passed Through the Bureau of Indian Affairs:			
Highway Planning and Construction - Hartford/McFadden	20.205	A13AC00014	63,205
Highway Planning and Construction - Hubbard Overflow	20.205	A13AC00016	42,979
Highway Planning and Construction - 44th Street	20.205	A13AC00017	141,152
Highway Planning and Construction - Tonkawa Roads	20.205	A13AC00098	151,625
Highway Planning and Construction - Seven Tonkawa Bridges	20.205	AGB00110001	76,731
Highway Planning and Construction - Eight Kaw Bridges	20.205	AGB00110002	562,695
Highway Planning and Construction - North Pecan Road	20.205	AGB00110003	54,086
Total Federal Highway Administration			<u>1,092,473</u>
<b>State and Community Highway Safety</b>			
Passed Through the Oklahoma Highway Safety Office			
State and Community Highway Safety	20.600	AL-14-03-04-06	7,615
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	164AL-15-03-05-07	9,223
Total State and Community Highway Safety			<u>16,838</u>
<b>Pipeline and Hazardous Materials Safety Administration</b>			
Passed Through the Oklahoma Department of Emergency Management			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		125
Total Oklahoma Department of Emergency Management			<u>125</u>
Total U.S. Department of Transportation			<u>1,109,436</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 1,219,351</u>

**KAY COUNTY, OKLAHOMA  
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**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

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

TO THE OFFICERS OF  
KAY COUNTY, OKLAHOMA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined total—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, 2015, and the related notes to the financial statement, which collectively 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 February 24, 2016.

Our report included an adverse opinion on the financial statement because the statement is prepared using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County for the year ended June 30, 2015, on the basis of accounting prescribed by Oklahoma state law, described in Note 1.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered Kay County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Kay County's internal control. Accordingly, we do not express an opinion on the effectiveness of Kay County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2015-1, 2015-2, and 2015-4.

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 described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2015-3 and 2015-5.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kay County's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-1, 2015-4, and 2015-5.

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

Kay County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Kay County's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



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

February 24, 2016



# 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 for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133**

TO THE OFFICERS OF  
KAY COUNTY, OKLAHOMA

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

We have audited 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 Kay County's major federal program for the year ended June 30, 2015. 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**

Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Kay County's management.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on Kay County's compliance based on our audit.

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

### **Basis for Qualified Opinion on Highway Planning and Construction**

As described in the accompanying schedule of findings and questioned costs, Kay County did not comply with requirements regarding the following:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2015-7	20.205	Highway Planning and Construction	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Davis-Bacon Act, Matching, Level of Effort, Earmarking, Period of Availability, Procurement and Suspension and Debarment, and Reporting
2015-8	20.205	Highway Planning and Construction	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Davis-Bacon Act, Matching, Period of Availability, Procurement and Suspension and Debarment

Compliance with such requirements is necessary, in our opinion, for Kay County to comply with the requirements applicable to that program.

### **Qualified Opinion on Highway Planning and Construction**

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion” paragraph, Kay County, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on Highway Planning and Construction for the year ended June 30, 2015. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2015-6.

### **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 2015-6, 2015-7, and 2015-8 to be material weaknesses.

### **Other Matters**

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., section 24A.1 et seq.), and shall be open to any person for inspection and copying.



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

February 24, 2016



**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**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?..... Yes

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: ..... Qualified

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

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

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

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

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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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 2015-1 – Inadequate Internal Controls and Noncompliance Over County Sales Tax (Repeat Finding)**

**Condition:** The Kay County sales tax ballot allows the levying of a two-thirds (.6665) of one cent sales tax for the Kay County Justice Facilities Authority (JFA). One-third (.33325) of one cent of the County sales tax will have a duration of twenty (20) years from the date of commencement or until the principal and interest are paid in full, whichever occurs earlier. While reviewing the County sales tax, the following was noted:

- As of June 30, 2015, sales tax collections in the amount of \$3,074,712.87 which were dedicated for the extinguishment of debt as approved on the sales tax ballot were improperly remitted to the Kay County Justice Authority and used for the operation of the jail. This amount includes cumulative collections from fiscal year 2009 to the current period.
- There is no oversight as to the calculation and utilization of sales tax for the purposes that were agreed upon by the voters of Kay County.
- The County is not ensuring that the correct percentage of sales tax collected is being applied towards debt retirement, as was described on the sales tax ballot.
- The Sales Tax Agreement Notes – Series 2008 and Series 2009 are scheduled to be paid off in twenty years by making the minimum monthly payments. Excess monies collected that should be applied toward debt retirement is instead being held in a repurchase sweep account, along with the portion that is to only be used on maintenance and operations of the JFA. This would commingle the funds and could cause money restricted for debt retirement to be incorrectly expensed on maintenance and operations.
- On April 14, 2008, Kay County District Attorney addressed the Board of County Commissioners (BOCC) regarding the sales tax and explained, “funds raised by the sales tax would only be spent on the jail and when the bond is paid off the tax will be cut in half. He said if the sales tax brings in more than projected then the bond would be paid off as soon as possible.”
- On January 10, 2014, the attorney hired by the JFA stated in the Board minutes, “The 2/3 cent can be used for all purposes including maintenance & operation and construction.” This would conflict with what the voters of Kay County agreed upon on the sales tax ballot.
- On the Commercial Loan invoice in which payments are made toward debt retirement, it states, “Excess payment amounts will be applied to your principal balance.” Since the JFA is not applying the correct amount towards debt retirement, the principal amount is not being reduced accordingly resulting in higher interest payments throughout the life of the note.

The following tables demonstrate the differences between the amounts that should be applied to debt retirement, and the actual payments being made on the Series 2008 and 2009 notes according to our calculations:

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Series 2008 Note**

<b>Fiscal Year End</b>	<b>Actual Payment Balance</b>	<b>Balance if Sales Ballot was Followed</b>	<b>Variance in Principal Balance</b>
2009	\$ 9,841,499.52	\$ 9,720,269.25	<b>\$ 121,230.27</b>
2010	\$ 9,514,014.75	\$ 9,344,966.89	<b>\$ 169,074.87</b>
2011	\$ 9,172,152.09	\$ 8,885,713.24	<b>\$ 286,438.85</b>
2012	\$ 8,814,903.47	\$ 8,313,411.91	<b>\$ 501,491.56</b>
2013	\$ 8,441,768.25	\$ 7,584,061.68	<b>\$ 857,706.57</b>
2014	\$ 8,051,977.33	\$ 6,864,711.85	<b>\$ 1,187,265.49</b>
2015	\$ 7,646,249.94	\$ 6,100,549.94	<b>\$ 1,545,700.00</b>

**Series 2009 Note**

<b>Fiscal Year End</b>	<b>Actual Payment Balance</b>	<b>Balance if Sales Ballot was Followed</b>	<b>Variance in Principal Balance</b>
2009	\$ 9,841,429.24	\$ 9,722,769.25	<b>\$ 118,659.99</b>
2010	\$ 9,515,322.76	\$ 9,352,444.96	<b>\$ 162,877.80</b>
2011	\$ 9,177,021.43	\$ 8,898,189.30	<b>\$ 278,832.13</b>
2012	\$ 8,822,655.77	\$ 8,330,858.51	<b>\$ 491,797.27</b>
2013	\$ 8,452,336.55	\$ 7,606,383.78	<b>\$ 845,952.78</b>
2014	\$ 8,065,309.84	\$ 6,891,760.32	<b>\$1,173,549.52</b>
2015	\$7,660,870.94	\$6,132,158.07	<b>\$1,528,712.87</b>

**Cause of Condition:** Kay County and the Justice Facilities Authority are not disbursing funds in accordance with the approved Kay County Sales Tax Ballot.

**Effect of Condition:** These conditions resulted in noncompliance with the Kay County Sales Tax Ballot 68 O.S. § 1370(E). By not following the ballot or state statute, the taxpayers in Kay County could potentially be paying more to retire the debt than it should. This could cause half of the sales tax to be unnecessarily extended. Furthermore, since half of the sales tax was not applied to debt retirement in previous years when collections were high, lower future projections of sales tax collections could put undue burden on the County to make payments.

**Recommendation:** The Oklahoma State Auditor & Inspector's office (OSAI) recommends that the portion of the county sales tax that is to be used on the principal and interest be applied in accordance with the Kay County Sales Tax Ballot. OSAI also recommends that County officials gain an understanding of the calculation and utilization of the sales tax to be in compliance with the Kay County Sales Tax Ballot and 68 O.S. § 1370(E).

**Management Response:**

**Current District 2 County Commissioner:** Kay County will discuss this matter further with the District Attorney to acquire more information.

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Criteria:** The Kay County Sales Tax Ballot states in part, “A portion of such 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 or interest upon indebtedness incurred on behalf of Kay County by the Kay County Justice Facilities Authority in furtherance of the new county detention facility and existing jail renovations is paid in full, whichever occurs earlier.”

Furthermore, 68 O.S. § 1370 (E) states in part, “Any sales tax which may be levied by a county shall be designated for a particular purpose. Such purposes may include, but are not limited to, projects owned by the state, any agency or instrumentality thereof, the county and/or any political subdivision located in whole or in part within such county, regional development, economic development, common education, general operations, capital improvements, county roads, weather modification or any other purpose deemed, by a majority vote of the county commissioners or as stated by initiative petition, to be necessary to promote safety, security and the general well-being of the people... The county shall identify the purpose of the sales tax when it is presented to the voters ...the proceeds of any sales tax levied by a county shall be deposited in the general revenue or sales tax revolving fund of the county and shall be used only for the purpose for which such sales tax was designated...”

Internal control is an integral component of an organization’s management that provides reasonable assurance that the objective of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

**Finding 2015-2 – Inadequate County-Wide Controls (Repeat Finding)**

**Condition:** County-wide controls regarding Risk Management and Monitoring have not been designed.

**Cause of Condition:** Policies and procedures have not been designed and implemented to address risks of the County.

**Effect of Condition:** Without an adequate system of county-wide internal controls, there is risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds.

**Recommendation:** Oklahoma State Auditor & Inspector’s Office (OSAI) recommends that the County design and implement procedures to identify and address risks. OSAI also recommends that the County design monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the County’s policies and procedures handbook.

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Management Response:**

**Current District 1 Commissioner:** I was elected and took office January 5, 2015 and was not responsible or in office prior to that date.

**Current District 2 Commissioner:** Kay County officers will get together to articulate a solution to the county-wide internal controls.

**Current District 3 Commissioner:** I was elected and took office January 5, 2015 and was not responsible or in office prior to this date.

**County Clerk:** Now that it has been brought to our attention we will address having Risk Management and Monitoring written policies and procedures.

**Criteria:** Internal control is an integral component of an organization's management that provides reasonable assurance that the objective of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. County management is responsible for designing a county-wide internal control system comprised of Risk Assessment and Monitoring for the achievement of these goals.

Risk Assessment is a component of internal control which should provide for an assessment of the risks the County faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objective.

Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that management know their responsibilities for internal control and the need to make control monitoring part of their regular operating process.

**Finding 2015-3 – Inadequate Internal Controls and Noncompliance with State Statutes Regarding Acceptance of Bids (Repeat Finding)**

**Condition:** The Board of County Commissioners (BOCC) solicits bids for commonly-used goods and services, but its process of accepting bids does not appear to comply with 19 O.S. §1505(B) regarding the purchase of commonly-used items and 19 O.S. § 1501(A)(3)(j) regarding the purchase of "processed" native materials for road and bridge improvements.

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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After bids for commonly-used goods and services are solicited and opened, the Kay County BOCC tables the matter for one week and then accepts all bids submitted, as noted below, without regard as to whether or not it is a processed native material.

- Asphalt
- Concrete
- Pouring/Finishing Concrete
- Road Rock
- Bridge Materials
- Lumber
- Culvert Pipe
- Heavy-Equipment Rental
- Road-Striping
- Routine Electrical Work

With the exception of road rock, none of the solicitations are for “processed native materials for road [or] bridge improvements,” including solicitations for bridge materials which are comprised mostly of non-native materials.

Additionally, no documentation was maintained to indicate any vendor was contacted at the time of work to determine both its ability and availability to provide goods or services.

The District 1 and District 3 Commissioners appear to regularly requisition money for road projects that exceed \$15,000, using piecemeal bids obtained for commonly-used goods or services as the basis for awarding an entire project despite the selected vendor not bidding the full project and not qualifying as the lowest bidder. In addition to not always using the lowest bidders, they often allowed a vendor to provide goods and services for which it had not bid and/or to subcontract with non-bidders or other bidders that were not the lowest bidders.

**Cause of Condition:** The County did not comply with 19 O.S. § 1505(B), which requires that counties awards bids to the lowest and best bidders. Further, the County did not comply with 19 O.S. § 1501(A)(3)(j), which allows counties to accept all bids only for processed native materials for road and bridge improvements.

**Effect of Condition:** These conditions resulted in noncompliance with state statutes regarding the awarding of bids. As a result, the County often did not obtain the best prices for road projects or for materials purchased from the commonly-used goods bid lists. In effect, this practice resulted in a vendor being awarded a project for which no bid had been submitted.

**Recommendation:** OSAI recommends the County discontinue its practice of accepting all bids for services or for commonly-used goods that are not processed native materials for road and bridge improvements and award the contract to the lowest and best bidder. County officials should clearly document the reason for not awarding a bid to the lowest bidder. Further, management should ensure all items included on the six month bid solicitation are for goods and materials only.

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Management Response:**

**Current District 1 Commissioner:** I was elected and took office January 5, 2015 and was not responsible or in office prior to that date. Bid practices have been changed as of January 5, 2015.

**Current District 2 Commissioner:** Kay County has already put into place procedures for the bidding rules and regulations.

**Current District 3 Commissioner:** I was elected to District 3 as Commissioner for the first time and took office January 5, 2015. Bid practices have been changed to comply with statutes from January 5 going forward.

**Criteria:** Best business practices would include soliciting bids from vendors with the goal of obtaining quality goods and/or services for the best price.

When counties purchase “needed or commonly [-] used supplies, materials, [or] equipment,” 19 O.S. § 1505(B) requires the counties to solicit bids, compare them to the state contract price for the items, and select “the lowest and best bid based upon, if applicable, the availability of material and transportation cost to the job site within 30 days,” specifying the reason “any time the lowest bid was not considered to be the lowest and best bid.”

When counties purchase “processed native materials for road and bridge improvements,” 19 O.S. § 1501(A) (3) (j) requires the counties to solicit bids but allows them to “... accept all bids received, with the lowest and best bid from those accepted to be selected... based upon availability, bid price, plus transportation cost... at the time of opening of any construction project.” OSAI would note the distinction between the terms “accept” and “award.” A decision to accept a bid is based upon it meeting certain bid specifications and, thus, is determined to be a qualified bid. The statutory guidance to award a bid is to identify the lone bidder who best meets the “lowest and best bid” criteria to the exclusion of all other bidders.

Further, 19 O.S. § 1505(B)(5) outlines the procedures to follow when the low bidder cannot fulfill a county bid contract. The statute states, “If a vendor who is the low bidder cannot or will not sell goods or services as required by a county bid contract, the county purchasing agent may purchase from the next low bidder or take quotations as provided in paragraph 6 of this subsection, *provided, however, such purchase does not exceed Ten Thousand Dollars (\$10,000.00).*”

Title 61 O.S. § 109 states, “Any bid received by the County more than 96 hours excluding Saturdays, Sundays, and holidays before the time set for the opening of bids, or any bid so received after the time set for opening of bids, shall not be considered by the awarding public agency and shall be returned unopened to the bidder submitting same.”

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Finding 2015-4 – Inadequate Internal Controls and Noncompliance with State Statutes Regarding Bidding Procedures (Repeat Finding)**

**Condition:** The test of five (5) items with a cost of \$15,000 or more reflected that the six month bid list was used for three (3) of five (5) items purchased. The following is a list of the Purchase Orders (POs) tested that should have been bid through the Public Competitive Bidding Act of 1974:

- PO 4286 was a purchase for a Road Project with a total of \$311,618.16.
- PO 631 was a purchase for a Road Project with a total of \$103,102.40.
- PO 3096 was a purchase for a Road Project with a total of \$84,105.76.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure compliance with state statutes with regard to the bidding process.

**Effect of Condition:** These conditions resulted in noncompliance with state statutes and could result in undetected errors and in some instances, misappropriation of assets.

**Recommendation:** OSAI recommends that policies and procedures be designed and implemented to ensure that all statutorily required bidding procedures are followed.

**Management Response:**

**Current District 1 Commissioner:** I was elected and took office January 5, 2015 and was not responsible or in office prior to that date. Bid practices have been changed as of January 5, 2015.

**Current District 2 Commissioner:** Kay County will look to bid all projects not associated with the county work force.

**Current District 3 Commissioner:** I was elected to District 3 as Commissioner for the first time and took office January 5, 2015. Bid practices have been changed to comply with statutes from January 5 going forward.

**Criteria:** Title 19 O.S. § 1505B prescribes the established bidding procedures for selecting a vendor for the purchase, lease-purchase, or rental of supplies, materials, equipment and information technology and telecommunication goods and services used by a county for the bidding of goods and/or services.

Title 61 O.S. § 103A states in part, “All public construction contracts exceeding Fifty Thousand Dollars (\$50,000) shall be let and awarded to the lowest responsible bidder, by open competitive bidding after solicitation for sealed bids.” “No work shall be commenced until a written contract is executed and all required bonds and insurance have been provided by the contractor to the awarding agency.”



**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Finding 2015-5 – Inadequate Internal Controls Over Purchasing and Noncompliance with State Statute (Repeat Finding)**

**Condition:** While testing eighty-five expenditures, we noted the following:

- Twenty-six (26) instances where the invoice dates and/or service dates were prior to the encumbrance dates for purchase orders.
- Twenty-one (21) instances where there was inadequate supporting documentation for the expenditure.
- Fourteen (14) instances where there was no receiving report attached to attest to the receiving of goods or services.
- Three (3) instances where the expenditure was not made for the appropriate amount.
- Three (3) instance where the expenditure was not charged to the proper period.
- One (1) instance where the expenditure was not reviewed/authorized.
- The County sold equipment at an auction on March 13 and 14, 2015, and continued to make payments on the equipment loan until May 13, 2015.

**Cause of Condition:** The County is not following established purchasing procedures.

**Effect of Condition:** These conditions resulted in noncompliance with state statute, inaccurate records, and incomplete information, which could result in a misappropriation of assets.

**Recommendation:** OSAI recommends Kay County practice proper purchasing procedures. All purchases should be properly requisitioned, encumbered, approved, and received with proper supporting documentation attached.

**Management Response:**

**Current District 1 Commissioner:** I was elected and took office January 5, 2015 and was not responsible or in office prior to that date.

**Current District 2 Commissioner:** The County Clerk has already implemented new policies for this issue.

**Current District 3 Commissioner:** I was elected to District 3 as Commissioner for the first time and took office January 5, 2015.

**County Clerk:** Procedural changes have been established.

**Criteria:** Title 19 O.S. § 1505 prescribes the procedures established for the requisition, purchase, lease-purchase, rental, and receipt of supplies, materials, and equipment for maintenance, operation, and capital expenditures of county government.

Further, good internal controls would include all supporting documentation related to disbursements be attached to the purchase order prior to approval for payment.

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**SECTION 3—Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133**

**Finding 2015-6 – Schedule of Expenditures of Federal Awards (Repeat Finding)**

**PASS-THROUGH GRANTOR:** All  
**FEDERAL AGENCY:** All  
**CFDA NO:** All  
**FEDERAL PROGRAM NAME:** All  
**FEDERAL AWARD NUMBER:** All  
**FEDERAL AWARD YEAR:** 2015  
**CONTROL CATEGORY:** All  
**QUESTIONED COSTS:** \$-0-

**Condition:** The offices and/or departments within the county, that expended federal funds, have not designed and implemented formal procedures for the reporting of its federal programs as required by OMB Circular A-133.

During our review and reconciliation of the Schedule of Expenditures of Federal Awards as initially prepared by Kay County, we noted the following:

- CFDA #12.106 – Flood Control Projects expenditures were overstated by \$18,546.
- CFDA #15.226 – Payments in Lieu of Taxes expenditures were overstated by \$23,198.
- CFDA #16.738 – Edward Byrne Memorial Justice Assistance Grant Program expenditures were understated by \$2,070.
- CFDA #20.205 – Highway Planning and Construction expenditures were understated by \$88,430.
- CFDA #20.600 – State and Community Highway Safety expenditures were understated by \$7,615.
- CFDA #20.601 – Alcohol Impaired Driving Countermeasures Incentive Grant I expenditures were overstated by \$16,878.
- CFDA #20.608 – Minimum Penalties for Repeat Offenders for Driving While Intoxicated expenditures were understated by \$9,223.

These errors resulted in the Schedule of Expenditures of Federal Awards being understated by \$48,716.

**Cause of Condition:** Policies and procedures have not been designed to ensure compliance with grant requirements and proper expenditure of federal grant funds.

**Effect of Condition:** Lack of internal controls over Federal program expenditures could lead to erroneous reporting and/or material misstatement of the County's Schedule of Expenditures of Federal Awards, and increases the potential for material noncompliance.

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Recommendation:** OSAI recommends each office and/or department within the County establish internal controls to ensure all Federal awards are properly accounted for and correctly reported on the Schedule of Expenditures of Federal Awards.

**Management Response:**

**Current District 1 Commissioner:** I was elected and took office January 5, 2015 and was not responsible or in office prior to that date.

**Current District 2 Commissioner:** To my knowledge Kay County has already noted the problem and has addressed the issue.

**Current District 3 Commissioner:** I was elected to District 3 as Commissioner for the first time and took office January 5, 2015.

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

Subpart C—Auditees

§\_\_\_.300 Auditee responsibilities.

The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received.
- (b) Maintain internal controls 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 material effect on each of its Federal programs.

OMB Circular A-133 §\_\_\_.310 (b) states in part that the auditee shall:

Prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements... At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency.
- (2) For Federal awards received as a sub recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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(5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to sub recipients from each Federal program.

(6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

**Finding 2015-7 – Inadequate County Wide Controls over Major Programs – BIA (Repeat Finding)**

**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:** AGB00110003, A13AC00017, AGB00110001, A13AC00014, A13AC00016, A13AC00098, A11AC00002

**FEDERAL AWARD YEAR:** 2015

**CONTROL CATEGORY:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Davis-Bacon Act; Matching, Level of Effort, Earmarking; Period of Availability; Procurement and Suspension and Debarment, and Reporting.

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

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

**Cause of Condition:** Policies and procedures have not been designed 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:**

**Current District 1 Commissioner:** I was elected and took office January 5, 2015 and was not responsible or in office prior to that date.

**Current District 2 Commissioner:** To my knowledge Kay County has already noted the problem and has addressed the issue.

**Current District 3 Commissioner:** I was elected to District 3 as Commissioner for the first time and took office January 5, 2015.

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Criteria:** Internal control is an integral component of an organization’s management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. County management is responsible for designing a county-wide internal control system comprised of Control Environment, Risk Assessment Information and Communication and Monitoring for the achievement of these goals

Control Environment is the foundation of an effective internal control system and begins with the “tone at the top” - the words and actions of management. Under an effective control environment, employees view internal control as essential and integral to doing their day-to-day job duties.

Risk Assessment is a component of internal control which should provide for an assessment of the risks the County faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

Information and Communication is a component of internal control which should allow for effective communication of relevant, accurate, and timely information that is required to meet the County’s objectives, including reliable financial reporting, efficient and effective operations, and compliance with laws and regulations.

Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that management know their responsibilities for internal control and the need to make control monitoring part of their regular operating process.

**Finding 2015-8 – Inadequate Internal Controls and Noncompliance Over Major Programs – BIA (Repeat Finding)**

**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:** AGB00110003, A13AC00017, AGB00110001, A13AC00014, A13AC00016, A13AC00098, A11AC00002

**FEDERAL AWARD YEAR:** 2015

**CONTROL CATEGORY:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Davis-Bacon Act; Period of Availability; and Procurement and Suspension and Debarment

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**QUESTIONED COSTS:** \$1,092,473

**Condition:** During the process of documenting the County's internal controls regarding federal disbursements, we noted the County has not established internal controls to ensure compliance with following compliance requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Davis-Bacon Act; Period of Availability; and Procurement and Suspension and Debarment.

During the review of 100% of Bureau of Indian Affairs (BIA) expenditures, we noted the following:

- All BIA projects were not competitively bid according to the BIA Cooperative Agreements except for the Eight Kaw Bridge – Chilocco Creek Project; Six-month bids or no-bids were used for all BIA projects.
- All certified payroll reports were not submitted for the BIA-North Pecan Road Project, BIA-Eight Kaw Bridge Project, BIA-44<sup>th</sup> Street Project, BIA-Seven Tonkawa Bridge Project, BIA-Hartford Road Project, and BIA-Tonkawa Road Project.
- Prevailing wage rate clauses were not included in any documentation for all BIA projects.
- Receiving reports and vendor invoices were not itemized for \$76,730.76.
- Disbursements totaling \$97,000.74 were expended on materials and labor not approved in a BIA Cooperative Agreement.
- The following POs were dated after the vendor invoice and/or receiving report and/or the BIA invoice: 191,298, 631, 633, 3510, and 4240.
- The following invoices supporting fiscal year 2015 purchase orders (PO) are missing:
  - PO #1290 is missing six invoices for a total of \$5,464.67 – 44<sup>th</sup> Street Project.
  - PO #1962 is missing 10 invoices for a total of \$9,144.06 – 44<sup>th</sup> Street Project.
- Purchase order #1962 was invoiced to the BIA for more than the actual invoice from the vendor; overcharging the BIA by \$855.95.
- \$53,000.00 was disbursed for unauthorized “Mobilization” for the North Pecan Road Project.
- The Eight Kaw Bridge Project was all completed after the BIA Cooperative Agreement obligation date of September 30, 2014.
- Kay County does not have a completely signed BIA Cooperative Agreement for the following projects:
  - BIA did not sign the following BIA Cooperative Agreements:
    - Eight Kaw Bridges Project
    - Seven Tonkawa Bridge Project
    - Tonkawa Road Project

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure compliance with OMB Circular A-133. The County is not following established purchasing procedures.

**Effect of Condition:** This condition resulted in noncompliance to 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 follow competitive bidding procedures outlined in state statutes. Further, the County should gain an understanding of requirements for these programs

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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and implement internal controls to ensure compliance with requirements. OSAI also recommends Kay County practice proper purchasing procedures. All purchases should be properly requisitioned, encumbered, approved, and received with proper supporting documentation attached.

**Management Response:**

**Current District 1 Commissioner:** I was elected and took office January 5, 2015 and was not responsible or in office prior to that date.

**Current District 2 Commissioner:** To my knowledge Kay County has already noted the problem and has addressed the issue.

**Current District 3 Commissioner:** I was elected to District 3 as Commissioner for the first time and took office January 5, 2015.

**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 material effect on each of its Federal programs.

OMB A-133 Compliance Supplement for Compliance Requirement Allowable Costs requires adequate documentation which would include detailed invoices and receiving information.

OMB A-133 Compliance Supplement for Compliance Requirement Davis-Bacon Act requires all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance fund be paid wages not less than those established for the locality of the project (prevailing wage rate) by the Department of Labor (40 USC 3141-3144, 3146, and 3147 (formerly 40 USC 276a to 276a-7)). Further, documentation of compliance with this requirement should be retained by the county.

Title 61 O.S. § 103A states in part, “All public construction contracts exceeding Fifty Thousand Dollars (\$50,000) shall be let and awarded to the lowest responsible bidder, by open competitive bidding after solicitation for sealed bids.” “No work shall be commenced until a written contract is executed and all required bonds and insurance have been provided by the contractor to the awarding agency.”

Title 62 O.S. § 310.1 (A) states in part, “(A) Unless otherwise provided by ordinance, officers, boards, commissioners and designated employees of...shall submit all purchase orders and contracts prior to the time the commitment is made, to the officer charged with

**KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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keeping the appropriation and expenditure records or clerk, who shall, if there be an unencumbered balance in the appropriation made for that purpose, so certify...that the amount of this encumbrance has been entered against the designated appropriation account...”

**SECTION 4—This section contains certain matters not required to be reported in accordance with *Government Auditing Standards*. However, we believe these matters are significant enough to bring to management’s attention. We recommend that management consider these matters and take appropriate corrective action.**

No matters were reported.



**KAY COUNTY, OKLAHOMA  
PRIOR YEAR SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Finding 2014-6 – Schedule of Expenditures of Federal Awards (Repeat Finding)**

**Pass-Through Grantor:** All

**Federal Agency:** All

**CFDA No:** All

**Federal Program Name:** All

**Federal Award Number:** All

**Federal Award Year:** 2014

**Control Category:** All

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

**Finding Summary:** The Schedule of Expenditures of Federal Awards was overstated by \$632,815.

**Status:** No corrective action taken

**Finding 2014-7 – Inadequate County-Wide Controls Over Major Programs – BIA (Repeat Finding)**

**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:** AGB00110003, A13AC00020, AGB00110002, A13AC00017, AGB00110001, A13AC00014, A13AC00016, A13AC00019, A13AC00098

**Federal Award Year:** 2014

**Control Category:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Davis-Bacon Act; Matching, Level of Effort, Earmarking; Period of Availability of Federal Funds; Procurement and Suspension and Debarment, and Reporting

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

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

**Status:** No corrective action taken

**Finding 2014-8 – Inadequate County-Wide Controls Over Major Programs – BIA (Repeat Finding)**

**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:** AGB00110003, A13AC00020, AGB00110002, A13AC00017, AGB00110001, A13AC00014, A13AC00016, A13AC00019, A13AC00098

**Federal Award Year:** 2014

**Control Category:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Davis-Bacon Act; Period of Availability; and Procurement and Suspension and Debarment

**Questioned Costs:** \$5,612,038

**Finding Summary:** Procedures have not been designed to ensure compliance with OMB A-133. The County is not following established purchasing procedures.

**KAY COUNTY, OKLAHOMA  
PRIOR YEAR SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Status:** No corrective action taken

**Finding 2013-6 – Schedule of Expenditures of Federal Awards (Repeat Finding)**

**Pass-Through Grantor:** All

**Federal Agency:** All

**CFDA No:** All

**Federal Program Name:** All

**Federal Award Number:** All

**Federal Award Year:** 2013

**Control Category:** All

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

**Finding Summary:** The Schedule of Expenditures of Federal Awards was understated by \$855,585.

**Status:** No corrective action taken

**Finding 2013-7 – Inadequate County-Wide Controls Over Major Programs – BIA (Repeat Finding)**

**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:** AGB00110003, AGB00110008, A12AC00747, AGB00110006, AGB00100018, A13AC00020, AGB00100020, AGB00110002, A12PC01037, A13AC00017, AGB00110001

**Federal Award Year:** 2013

**Control Category:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Davis-Bacon Act; Matching, Level of Effort, Earmarking; Period of Availability of Federal Funds; Procurement and Suspension and Debarment, and Reporting.

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

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

**Status:** No corrective action taken

**Finding 2013-8 – Inadequate County-Wide Controls Over Major Programs – BIA (Repeat Finding)**

**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:** AGB00110003, AGB00110008, A12AC00747, AGB00110006, AGB00100018, A13AC00020, AGB00100020, AGB00110002, A12PC01037, A13AC00017, AGB00110001

**Federal Award Year:** 2013

**KAY COUNTY, OKLAHOMA  
PRIOR YEAR SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Control Category:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Davis-Bacon Act; Period of Availability; and Procurement and Suspension and Debarment

**Questioned Costs:** \$4,378,769

**Finding Summary:** Procedures have not been designed to ensure compliance with OMB A-133. The County is not following established purchasing procedures.

**Status:** No corrective action taken

**Finding 2012-3 – Schedule of Expenditures of Federal Awards (Repeat Finding)**

**Pass-Through Grantor:** All

**Federal Agency:** All

**CFDA No:** All

**Federal Program Name:** All

**Federal Award Number:** All

**Federal Award Year:** 2012

**Control Category:** All

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

**Finding Summary:** The Schedule of Expenditures of Federal Awards was overstated by \$94,521.78.

**Status:** Management does not feel this finding warrants further action because two years have passed since the audit report was submitted to the Federal clearinghouse, the Federal agency or pass-through entity is not currently following up with the County regarding this finding, and a management decision has not been issued.

**Finding 2012-16 – Inadequate County-Wide Controls Over Major Programs – BIA (Repeat Finding)**

**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:** AGB00100019, AGB00110008, AGB00110003, AGB00110006, RAC00310007 AND A12AC00747

**Federal Award Year:** 2012

**Control Category:** Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Davis-Bacon Act; Period of Availability; Procurement and Suspension and Debarment, and Reporting

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

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

**Status:** Management does not feel this finding warrants further action because two years have passed since the audit report was submitted to the Federal clearinghouse, the Federal agency or pass-through entity is not currently following up with the County regarding this finding, and a management decision has not been issued.

**KAY COUNTY, OKLAHOMA  
PRIOR YEAR SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Finding 2012-17 – Inadequate County-Wide Controls Over Major Programs – BIA (Repeat Finding)**

**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:** AGB00100019, AGB00110008, AGB00110003, AGB00110006, RAC00310007 AND A12AC00747

**Federal Award Year:** 2012

**Control Category:** Allowable Costs/Cost Principles; Davis-Bacon Act; and Reporting

**Questioned Costs:** \$1,179,162

**Finding Summary:** Procedures have not been designed to ensure compliance with OMB A-133. The County is not following established purchasing procedures.

**Status:** Management does not feel this finding warrants further action because two years have passed since the audit report was submitted to the Federal clearinghouse, the Federal agency or pass-through entity is not currently following up with the County regarding this finding, and a management decision has not been issued.

**Finding 2011-9 – Material Contracts (BIA) (Repeat Finding)**

**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:** RAC00310003, AGB00090026, RAC00310001, AGB0090027, and AGB00100019

**Federal Award Year:** 2010

**Control Category:** Allowable Costs/Cost Principles; Procurement and Suspension and Debarment

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

**Finding Summary:** The County did not properly bid expenditures for the federal program Highway Planning and Construction.

**Status:** No corrective action taken.



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