



KAY COUNTY

Financial Audit

For the fiscal year ended June 30, 2017

Cindy Byrd, CPA
State Auditor & Inspector

**KAY COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

July 8, 2020

TO THE CITIZENS OF
KAY COUNTY, OKLAHOMA

Transmitted herewith is the audit of Kay County, Oklahoma for the fiscal year ended June 30, 2017. 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 "Cindy Byrd". The signature is fluid and cursive, with the first and last names clearly legible.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



**KAY COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Board of County Commissioners

District 1 – Vance Johnson until June 20, 2017
District 1 – Vacant June 21, 2017 through June 30, 2017
District 2 – Jason Shanks
District 3 – Paul Skidmore

County Assessor

Susan Keen

County Clerk

Tammy Reese

County Sheriff

Steve Kelley

County Treasurer

Christy Kennedy

Court Clerk

Marilee Thornton

District Attorney

Brian Hermanson

**KAY COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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FINANCIAL SECTION

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, 2017, and the related notes to the financial statement, which collectively comprise the County's basic financial statement as listed in the table of contents.

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 this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free 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, 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 statement 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, 2017, or changes in financial position for the year then ended.

Unmodified 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, 2017, in accordance with the basis of accounting described in Note 1.

Emphasis of Matter

As discussed in Note F to the financial statement, the June 30, 2017 financial statement has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary 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 supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. 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 supplementary information is fairly stated, in all material respects, in relation to the financial statement.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2020, 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 solely 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 effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kay County's internal control over financial reporting and compliance.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

July 6, 2020

REGULATORY BASIS FINANCIAL STATEMENT

KAY COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Beginning Cash Balances July 1, 2016	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2017
Combining Information:						
County General Fund	2,757,892	5,213,595	18	-	5,050,009	2,921,496
Highway Cash	2,126,294	7,582,801	100,000	355,628	7,266,660	2,186,807
Highway CBRIF	303,566	217,541	130,628	-	232,848	418,887
Resale Property	644,744	197,022	-	-	200,271	641,495
County Health Department	818,043	762,589	-	-	533,928	1,046,704
Sheriff Jail Cash Fund	5,605	-	-	5,605	-	-
Sheriff Service Fee	135,521	296,763	5,605	-	246,995	190,894
Sheriff Commissary	14	-	-	-	-	14
Sheriff JAG Grant Fund	-	3,300	-	-	3,300	-
County Clerk Lien Fee	142,511	13,724	-	-	22,663	133,572
County Treasurer Mortgage Certification Fee	52,125	6,415	-	-	1,818	56,722
County Clerk Preservation Fee	107,621	50,340	-	-	70,298	87,663
Sheriff Training	5,113	-	-	-	4,275	838
Community Service Sentencing Program	1,231	-	-	-	-	1,231
Use Tax Fund	1,397,750	378,021	-	-	472,776	1,302,995
County Sales Tax	409,063	3,665,383	-	-	3,678,355	396,091
Local Emergency Planning Committee Grant	7,251	-	-	-	3,611	3,640
Juvenile Accountability Incentive Block Grant	3,015	-	-	-	-	3,015
County Cash Fund	2,423	5	-	-	-	2,428
Visual Inspection Reimbursement	85,929	10,458	-	-	14,717	81,670
Open Dumping Reward	5,969	195	-	-	-	6,164
Combined Total - All County Funds, as Restated	\$ 9,011,680	\$ 18,398,152	\$ 236,251	\$ 361,233	\$ 17,802,524	\$ 9,482,326

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, 2017**

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 for the purpose of constructing and maintaining county roads and bridges.

Highway CBRIF – accounts for revenues from the Oklahoma Department of Transportation for County Commissioners' bridge and road funds and disbursements are earmarked for bridges, roads, and certain improvements to roads.

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

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

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

**KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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

Sheriff JAG Grant Fund accounts for monies received from the Department of Justice passed through the City of Ponca City to be used to purchase equipment for the Sheriff's office.

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

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 state statute.

County Clerk Preservation Fee – accounts for fees collected for instruments filed with the County Clerk and disbursements are for the maintenance and preservation of public records.

Sheriff Training – accounts for collections from the sale of property forfeited in drug cases and disbursements are for the enforcement of controlled dangerous substance laws.

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

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.

County Sales Tax – accounts for collections of sales tax revenue and disbursed to the Kay County Justice Facilities Authority for bond payments and maintenance and operation of the jail.

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.

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

**KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Visual Inspection Reimbursement – accounts for the collection and expenditure of monies by the County Assessor as restricted by state statute for the visual inspection program.

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

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 with all other funds included in the audit presented in the aggregate in a combining statement. However, the County has elected to present all funds included in the audit in the Statement of Receipts, Disbursements, and Changes in Cash Balances—Regulatory Basis.

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.

**KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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).

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. The County Treasurer, according to the law, shall give notice of delinquent taxes and special assessments by publication once a week for two consecutive weeks at any time after April 1, but prior to the end of September following the year the taxes were first due and payable. Unpaid real property taxes become a lien upon said property after the treasurer has perfected the lien by public notice.

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

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

**KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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.

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.

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

D. Sales Tax

The voters of Kay County approved a two-thirds percent (.6665) 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 remaining one-third (.33325) of one percent is for maintenance and operations of the JFA and will continue until repealed by a majority of the electors in Kay County. These funds are accounted for in the County Sales Tax fund.

**KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

E. Tax Abatements

The County is subject to ad valorem tax abatements granted by the State of Oklahoma in accordance with the Oklahoma Constitution, Article 10 Section 6B for qualifying manufacturing concern—ad valorem tax exemption.

Under this program, a five-year ad valorem tax exemption exempts all real and personal property that is necessary for the manufacturing of a product and facilities engaged in research and development which meet the requirements set by the Oklahoma Constitution and statutes. Under Title 68 O.S. § 2902, in exchange for the five-year exemption, qualifying manufacturing concerns must meet certain minimum investment requirements for construction, acquisition, or expansion of a manufacturing facility. In addition, there are general minimum payroll requirements that must be met and the qualifying manufacturing concern must offer basic health benefit plans to all full-time employees within 180 days of employment.

The County had \$752,838 of ad valorem taxes abated under this program for the fiscal year ended June 30, 2017.

The State has an Ad Valorem Reimbursement Fund in accordance with Title 62 O.S. § 193 that is used to reimburse the County for the loss of revenue. Monies apportioned to this fund by the State also may be transferred to other state funds or otherwise expended as directed by the Legislature. In the event monies apportioned to the Fund are insufficient to pay all claims for reimbursement, claims for reimbursement for loss of revenue due to manufacturing exemptions of ad valorem taxes shall be paid first, and any remaining funds shall be distributed proportionally among the counties making claims for reimbursement for loss of revenue for school district exemptions.

F. Interfund Transfers

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

- \$130,628 was transferred from Highway Cash fund to reimburse Highway CBRI for road and bridge projects.
- Residual transfer of \$5,605 from Sheriff Jail Cash Fund to Sheriff Service Fee fund.
- \$18 was transferred to County General Fund from Unclaimed Property fund (a trust and agency fund) per Title 4 O.S. § 85.6 D.
- \$100,000 was transferred from Emergency and Transportation Revolving (ETR) fund (a trust and agency fund) to Highway Cash fund as a loan for bridge and road projects in the County.
- \$225,000 was transferred from Highway Cash fund to Emergency and Transportation Revolving (ETR) fund (a trust and agency fund) for the repayment of a loan.

KAY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

G. Restatement of Fund Balance

During the fiscal year, the County had a reclassification of funds. A portion of the County Sales Tax balance was reclassified as a trust and agency fund.

Prior year ending balance, as reported	\$11,682,060
County funds reclassified as Trust and Agency funds:	
Kay County Detention Center Correction	<u>(2,670,380)</u>
Prior year ending balance, as restated	<u>\$ 9,011,680</u>

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, 2017

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 2,757,892	\$ 2,757,892	\$ -
Less: Prior Year Outstanding Warrants	(143,767)	(143,767)	-
Less: Prior Year Encumbrances	(99,598)	(75,022)	24,576
Beginning Cash Balances, Budgetary Basis	<u>2,514,527</u>	<u>2,539,103</u>	<u>24,576</u>
Residual Transfer	-	18	18
Total Receipts, Budgetary Basis	<u>4,497,615</u>	<u>5,213,595</u>	<u>715,980</u>
Total Expenditures, Budgetary Basis	<u>7,012,142</u>	<u>5,140,232</u>	<u>1,871,910</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	2,612,484	<u>\$ 2,612,466</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		160,218	
Add: Current Year Encumbrances		<u>148,794</u>	
Ending Cash Balance		<u>\$ 2,921,496</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, 2017

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 818,043	\$ 818,043	\$ -
Less: Prior Year Outstanding Warrants	(2,577)	(2,577)	-
Less: Prior Year Encumbrances	(81,819)	(68,188)	13,631
Beginning Cash Balances, Budgetary Basis	<u>733,647</u>	<u>747,278</u>	<u>13,631</u>
 Total Receipts, Budgetary Basis	 <u>755,262</u>	 <u>762,589</u>	 <u>7,327</u>
 Total Expenditures, Budgetary Basis	 <u>1,488,909</u>	 <u>630,529</u>	 <u>858,380</u>
 Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	 <u>\$ -</u>	 879,338	 <u>\$ 879,338</u>
 Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		88,897	
Add: Current Year Outstanding Warrants		<u>78,469</u>	
Ending Cash Balance		<u>\$ 1,046,704</u>	

**KAY COUNTY, OKLAHOMA
NOTE TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 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.

INTERNAL CONTROL AND COMPLIANCE SECTION

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 Statement of Receipts, Disbursements, and Changes in Cash Balances (with Combining Information) of Kay County, Oklahoma, as of and for the year ended June 30, 2017, 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 July 6, 2020.

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, 2017, 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.

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. 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.



Our consideration of internal control was for the limited purpose described in the first 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses: 2017-003 and 2017-010.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters regarding statutory compliance that we reported to the management of Kay County, which are included in Section 2 of the schedule of findings and responses contained in this report.

Kay County's Response to Findings

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

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.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

July 6, 2020

**KAY COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION 1—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 2017-003 – Internal Controls Over Signature Stamps and the Disbursement Process (Repeat Finding - 2016-005)

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

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

Of the sixty-four (64) disbursements tested, the following was noted:

- Five (5) disbursements were not adequately documented due to timesheet not signed by employee and /or supervisor.

Cause of Condition: Policies and procedures have not been designed and implemented to adequately mitigate against the risk of unauthorized individuals having access to the elected officials’ signature stamp stamps.

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

Recommendation: The Oklahoma State Auditor’s Office (OSAI) recommends that signature stamps be used only by the official to whom it belongs. Officials who utilize signature stamps should ensure that signature stamps are adequately safeguarded from unauthorized use. Disbursements should be supported by adequate documentation.

Management Response:

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

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

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

County Clerk: I was not fully aware of the possible risks related to access to the Commissioners’ signature stamps. The County Clerk’s office will no longer have physical custody of the Commissioners’ signature stamps. Disbursements were reviewed to determine cause of noncompliance. Disbursements will be

**KAY COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

adequately documented, be reviewed and authorized, and be approved by the Board of County Commissioners, and/or management to ensure compliance with purchasing guidelines.

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

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

Segregation of Duties

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

Additionally, Principle 10 - Segregation of Duties states:

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

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

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

Finding 2017-010 – Internal Controls Over the Financial Statement Presentation

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

**KAY COUNTY, OKLAHOMA
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FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Beginning Cash Balances July 1, 2016	Receipts Apportioned	Transfer in	Transfer Out	Disbursements	Ending Cash Balances June 30, 2017
As reported by County	\$11,676,781	\$23,332,512	\$230,628	\$30,628	\$24,408,387	\$10,600,906
As Amended	9,011,680	18,398,152	236,251	361,233	17,802,524	9,482,326
Adjustments	(\$2,665,101)	(\$4,934,360)	\$5,623	\$130,605	(\$6,605,863)	(\$1,118,580)

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

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

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

Management Response:

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

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

Criteria: The limitations of the auditor are described in the American Institute of Certified Public Accountants Clarified Statements on Auditing Standards AU-C § 210, which states, in part: "The concept of an independent audit requires that the auditor's role does not involve assuming management's responsibility for the preparation and fair presentation of the financial statements or assuming responsibility for the entity's related internal control and that the auditor has a reasonable expectation of obtaining the information necessary for the audit insofar as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an independent audit."

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

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

SECTION 2—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.

Finding 2017-007 – Noncompliance Over Lease Agreement

Condition: While gaining an understanding and reviewing documents related to the acquisition of property by the County, we noted the following:

The Board of County Commissioners entered into a lease agreement, effective May 30, 2017, with the Kay County Public Buildings Authority for a period of forty (40) years obligating the County past the current fiscal year. Additionally, the agreement did not contain an “opt out” clause option to protect the County from being obligated past the current fiscal year.

Subsequently, during the fiscal year 2019 we noted the County disbursed \$220,749 directly to a financial institution which was the payoff amount for the loan held by the Authority.

Cause of Condition: Policy and procedures have not been designed and implemented to ensure compliance with Title 62 O.S. § 430.1 and Article X Section 26 of the Oklahoma Constitution.

Effect of Condition: These conditions resulted in noncompliance with state statute and the Oklahoma Constitution.

Recommendation: OSAI recommends the County to comply with 62 O.S. § 430.1 and Article X Section 26 of the Oklahoma Constitution.

Management Response:

Chairman of the Board of County Commissioners: BOCC will take measures to stay in compliance with Title 62 O.S. § 430.1 and Article X Section 26 when making purchases and will make sure there will be an opt out clause and to not obligate the county past the fiscal year.

County Clerk: This lease contract was paid off in fiscal year 2019 and will not continue in future fiscal years. Subsequent contracts will be reviewed to ensure compliance with Title 62 O.S. § 430.1 and Article X Section 26 of the Oklahoma Constitution. Disbursements for lease purchase contracts will be made in accordance with the terms of the contract.

**KAY COUNTY, OKLAHOMA
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Criteria: The GAO Standards – Section 2 – Objectives of an Entity - OV2.23 states in part:

Compliance Objectives

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

Title 62 O.S. § 430.1(A) states in part, “The governing board of any county, city or town, or school district is authorized to rent on a monthly basis real or personal property as authorized by the governing board and to pay the rental charges thereon for usage during such fiscal year. Any such rental contract extending beyond June 30 of the fiscal year shall contain provisions for mutual ratification of renewal under the conditions provided ...

Article X Section 26 of the Oklahoma Constitution prohibits any political subdivision from becoming indebted beyond the current fiscal year (June 30) without a vote of the people.



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