



OSAGE COUNTY

Financial Audit

For the fiscal year ended June 30, 2016

Cindy Byrd, CPA
State Auditor & Inspector

**OSAGE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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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

June 27, 2019

TO THE CITIZENS OF
OSAGE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Osage County, Oklahoma for the fiscal year ended June 30, 2016. 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



**OSAGE COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Board of County Commissioners

District 1 – Bob Jackson
District 2 – Scott Hilton
District 3 – Darren McKinney

County Assessor

Gail Hedgcoth

County Clerk

Shelia Bellamy

County Sheriff

Ty Koch

County Treasurer

Sally Hulse

Court Clerk

Jennifer Burd

District Attorney

Rex Duncan

**OSAGE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**OSAGE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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FINANCIAL SECTION

Independent Auditor's Report

TO THE OFFICERS OF
OSAGE 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 Osage County, Oklahoma, as of and for the year ended June 30, 2016, 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 Osage 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 Osage County as of June 30, 2016, 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 Osage County, for the year ended June 30, 2016, in accordance with the basis of accounting described in Note 1.

Other Matters

Supplementary and 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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the remaining 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 remaining supplementary information 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 remaining 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 June 24, 2019, on our consideration of Osage 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 Osage County's internal control over financial reporting and compliance.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

June 24, 2019

REGULATORY BASIS FINANCIAL STATEMENT

OSAGE COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Beginning Cash Balances July 1, 2015	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2016
Combining Information:						
County General	\$ 4,233,018	\$ 4,886,896	\$ -	-	\$ 4,450,428	\$ 4,669,486
T-Highway	2,439,836	7,516,200	-	-	6,463,921	3,492,115
County Health for the Elderly	2,805,357	866,311	-	-	586,901	3,084,767
Sales Tax	627,818	3,501,645	1,175,000	-	4,461,776	842,687
Sales Tax Investments	4,650,000	-	-	1,175,000	-	3,475,000
Use Tax	2,174,493	771,229	-	-	914,248	2,031,474
County Bridge and Road Improvement Fund	661,186	421,869	209,653	-	438,369	854,339
Osage County Nutrition Program	149,492	519,880	-	-	511,393	157,979
Resale Property	1,332,674	412,216	-	-	342,426	1,402,464
Special Insurance	23,957	-	-	-	-	23,957
Sheriff Equipment	832	-	-	-	-	832
Sheriff B-4	185,042	279,261	48,631	45,000	274,375	193,559
County Clerk Records Preservation Fund	331,561	43,279	-	-	114,032	260,808
County Clerk Lien Fee	126,651	14,837	-	-	25,156	116,332
Treasurer Mortgage Certification Fee	94,629	6,790	-	-	2,093	99,326
Community Service	2,856	-	-	-	-	2,856
Capital Outlay and Equipment	1,037	-	-	-	-	1,037
County Sheriff Cash	217,085	131,826	-	-	220,381	128,530
County Assessor Cash	18,106	5,621	-	-	4,250	19,477
Nutrition Donation Fund	3,089	-	-	-	-	3,089
Osage County Trash COP	240	-	-	-	-	240
Law Enforcement Block Grant	565	-	-	-	-	565
County Building Fund	1,013	-	-	-	-	1,013
Emergency Management EOP Grant	24	-	-	-	-	24
SLA Grant Supplemental Award	382	-	-	-	-	382
Special E-911 Fund	190,859	52,901	-	-	68,544	175,216
Sheriff Jail Canteen	44,136	122,238	-	-	106,207	60,167
Free Fair	2,214	200	-	-	-	2,414
Fairgrounds Cash Account	47,233	45,120	-	-	60,400	31,953
E-911 Tower	1,050	-	-	-	-	1,050
Drug Grant #19	75	-	-	-	-	75
Drug Grant JAG	48,631	-	-	48,631	-	-
Weather Radio Grant	276	-	-	-	-	276
Local Emergency Planning Committee	3,178	1,000	-	-	173	4,005
Courthouse Security	22,749	28,835	-	-	9,743	41,841
E-911 Wireless	256,105	158,052	-	-	142,302	271,855
County Lodging Tax	60,693	71,543	-	-	74,552	57,684
Emergency Management Performance Grant	695	-	-	-	-	695
Sheriff Unclaimed Property	41,346	14,096	-	-	9,381	46,061
Trash Reward	96	-	-	-	-	96
Kennedy Building	2,312	-	-	-	-	2,312
Court Clerk Payroll	20,656	244,037	-	-	215,300	49,393
2015 VOCA Grant	-	32,327	45,000	-	48,996	28,331
Community Development Block Grant-16316	-	262,322	-	-	262,322	-
Combined Total - All County Funds,	\$ 20,823,247	\$ 20,410,531	\$ 1,478,284	\$ 1,268,631	\$ 19,807,669	\$ 21,635,762
As Restated						

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

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Osage 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 – accounts for the general operations of Osage County.

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

County Health for the Elderly – accounts for monies collected for performing health-related services for the elderly. Disbursements are for expenditures associated with performing these services.

Sales Tax – accounts for sales tax collections received for operating and maintaining the County Jail and the County Department of Health.

Sales Tax Investments – accounts for sales tax revenue held in short-term investments for future sales tax restricted use.

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Use Tax – accounts for receipts of Oklahoma Tax Commission collection of county use tax. Disbursements are for the construction, purchase, and/or maintenance of county buildings.

County Bridge and Road Improvement Fund – accounts for monies received from the State of Oklahoma and disbursements are for the purpose of constructing and maintaining county roads and bridges.

Osage County Nutrition Program – accounts for a Title 3 program, which provides meals; both congregate and individual, to senior citizens who are 60 years old or older and who are unable to leave their residence without assistance.

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

Special Insurance – accounts for insurance reimbursements received for damages to county property. Disbursements are for repairs to county property.

Sheriff Equipment – accounts for donations received for the purpose of purchasing special equipment for the Sheriff's department.

Sheriff B-4 – accounts for the collection and disbursement of Sheriff process service fees as restricted by state statute.

County Clerk Records Preservation Fund – accounts for fees collected for instruments filed in the County Clerk's office as restricted by state statute for preservation of records.

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

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

Community Service – accounts for revenues from state funds for reimbursement of administrative expenses for people sentenced to community service.

Capital Outlay and Equipment – accounts for the collection and disbursement of funds collected to support capital improvements.

County Sheriff Cash – accounts for the collection and disbursement of money supplied to the Sheriff's office for the housing of prisoners for towns, tribes, and other counties. Disbursements are for any lawful Sheriff expenditure.

County Assessor Cash – accounts for collection of fees for copies restricted by state statute.

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Nutrition Donation Fund – accounts for donations received at the area nutrition locations where meals are provided; both congregate and individual, to senior citizens who are 60 years old or older and who are unable to leave their residence without assistance. Disbursements are grant restricted.

Osage County Trash COP – accounts for monies collected from fines and disbursements are used to prevent the dumping of trash throughout the County.

Law Enforcement Block Grant – accounts for the collection and disbursement of grant money supplied to the County by the Department of Justice for local law enforcement agencies.

County Building Fund – accounts for funds remaining from building projects.

Emergency Management EOP Grant – accounts for the receipt and disbursement of funds from federal and state sources for emergency management and other civil defense purposes.

SLA Grant Supplemental Award – accounts for the receipt and disbursement of funds from federal and state sources for emergency management and other civil defense purposes.

Special E-911 Fund – accounts for the collection of fees charged by private telephone companies for the County's emergency 911 system. Disbursements are for expenditures related to providing these services.

Sheriff Jail Canteen – accounts for the collection of the sale of items to inmates and disbursements to purchase commissary goods from the vendor and can be used for the maintenance and operations of the County jail.

Free Fair – accounts for the collections of rental income and donations. Disbursements are for the maintenance and operation of the Free Fair.

Fairgrounds Cash Account – accounts for the collection of rental income and other miscellaneous receipts. Disbursements are for the purpose of maintenance and operation of the fairgrounds.

E-911 Tower – accounts for the collection of rental income associated with the E-911 tower.

Drug Grant #19 – accounts for federal grant monies passed through the District Attorney's Council used by the Sheriff's office for salaries, benefits, and confidential funds.

Drug Grant JAG – accounts for the federal grant monies passed through the District Attorney's Council used by the Sheriff's office for salaries and benefits.

Weather Radio Grant – accounts for revenues from a federal grant to purchase weather radios.

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Local Emergency Planning Committee – accounts for revenues from a state grant to cover the cost of paperwork for hazardous materials that are moved within the County. Disbursements may be used for anything that pertains to Local Emergency Planning Committee.

Courthouse Security – accounts for revenues from a portion of fines collected within the County. Disbursements may be used for anything that pertains to security for the Courthouse.

E-911 Wireless – accounts for the collection of fees charged on cellular telephone bills for the County's wireless emergency 911 system. Disbursements are for expenditures related to providing these services.

County Lodging Tax – accounts for revenues from 5% tax collected by the Oklahoma Tax Commission from the hotels and motels in the County. Disbursements may only be used for promotion and development of tourism and recreational activities within Osage County.

Emergency Management Performance Grant – accounts for revenues from a federal grant to be used for an emergency management employee to attend college.

Sheriff Unclaimed Property – accounts for unclaimed money in the inmate trust account and disbursements are restricted by state statute.

Trash Reward – accounts for revenues from a yearly state grant and disbursements are for trash cop salaries.

Kennedy Building – accounts for revenues from rent proceeds and disbursements are for the maintenance and operation of the Kennedy Building.

Court Clerk Payroll – accounts for the monies disbursed for payroll of the Court Clerk's employees.

2015 VOCA Grant – accounts for revenues from victims of crime act grant and disbursements are restricted by the grant agreement.

Community Development Block Grant-16316 – accounts for moneys awarded to the County through the Oklahoma Department of Commerce. The disbursements are restricted by the grant agreement.

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

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.

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.

The County has investments with an original cost of \$4,000,000 with a financial institution that has invested the funds in Federal National Mortgage Association bonds and Federal Home Loan Mortgage Corporation which are not backed by the full faith and credit of the United States Government and are subject to interest rate risk and credit risk.

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

All investments, except for those investments noted in the preceding paragraph, are backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured. All investments, except for those investments noted in the preceding paragraph, 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 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.

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Sales Tax of July 27, 2010

The voters of Osage County approved a 1% (one percent) county-wide sales tax. The sales tax is to be used as follows:

- 1% for the collection and enforcement of the sales tax.
- 99% for the maintenance and operation of the new jail and increased personnel, equipment, and operation costs of the Osage County Sheriff's Office.

Annual collections are first applied to fully satisfy annual debt service payments and the remainder of annual collections to be applied towards the other specified purposes. The sales tax became effective July 1, 2014 and has an unlimited duration.

These funds are accounted for in the County General and Sales Tax funds.

Sales Tax of July 25, 2006

The voters of Osage County approved a 0.25% (one-quarter of one percent) county-wide sales tax.

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The sales tax is to be used exclusively to maintain and establish a County Department of Health. The sales tax became effective December 1, 2006 and has an unlimited duration.

These funds are accounted for in the Sales Tax fund.

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 \$1,792 of ad valorem taxes abated under this program for the fiscal year ended June 30, 2016.

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.

- \$48,631 was transferred from the Drug Grant JAG fund to the Sheriff B-4 fund for repayment of a loan.
- \$45,000 was transferred from the Sheriff B-4 fund to the 2015 VOCA Grant fund as a loan to meet requirements of the grant.
- \$1,175,000 was transferred from Sales Tax Investments fund to the Sales Tax fund due to the investment maturing.
- \$209,653 was transferred from the ETR Revolving Fund (Trust and Agency Fund) to the County Bridge and Road Improvement Fund for expenses incurred for a road project.

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

G. Restatement of Fund Balance

During the fiscal year, the County reclassified the following funds:

Prior year ending balance, as reported	\$20,767,589
Funds reclassified from a Trust and Agency Fund to a County Fund:	
Court Clerk Payroll	20,656
Sheriff Unclaimed Property	41,346
Trash Reward	96
Kennedy Building	2,312
Funds reclassified from a County Fund to a Trust and Agency Fund:	
Public Works Authority	<u>(8,752)</u>
Prior year ending balance, as restated	<u>\$20,823,247</u>

OTHER SUPPLEMENTARY INFORMATION

OSAGE 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, 2016

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 4,233,018	\$ 4,233,018	\$ -
Less: Prior Year Outstanding Warrants	(155,033)	(155,033)	-
Less: Prior Year Encumbrances	(45,339)	(37,444)	7,895
Beginning Cash Balances, Budgetary Basis	<u>4,032,646</u>	<u>4,040,541</u>	<u>7,895</u>
 Total Receipts, Budgetary Basis	 <u>4,314,550</u>	 <u>4,886,896</u>	 <u>572,346</u>
Total Expenditures, Budgetary Basis	<u>8,347,196</u>	<u>4,475,893</u>	<u>3,871,303</u>
 Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	 <u>\$ -</u>	 4,451,544	 <u>\$ 4,451,544</u>
 Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		175,645	
Add: Current Year Encumbrances		<u>42,297</u>	
Ending Cash Balance		<u>\$ 4,669,486</u>	

OSAGE COUNTY, OKLAHOMA
NOTE TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

1. Budgetary Schedules

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed Through the Office of Oklahoma Department of Commerce:			
Community Development Block Grants/State's program and Non-Entitlement			
Grants in Hawaii	14.228	16316 CDBG 13	<u>262,322</u>
Total U.S. Department of Housing and Urban Development			<u>262,322</u>
U.S. DEPARTMENT OF THE INTERIOR			
Direct Grant:			
Payments in Lieu of Taxes	15.226	N/A	<u>169,660</u>
Total U.S. Department of the Interior			<u>169,660</u>
U.S. DEPARTMENT OF JUSTICE			
Passed Through the Oklahoma District Attorney's Council			
Crime Victim Assistance	16.575	N/A	<u>60,191</u>
Total U.S. Department of Justice			<u>60,191</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through the Indian Nations Council of Government (INCOG):			
Special Programs for the Aging, Title III, Part B, Grants for Supportive			
Services and Senior Centers	93.044	34091241	15,587
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	34091241	218,439
Nutrition Services Incentive Program	93.053	34091241	<u>76,203</u>
Total U.S. Department of Health and Human Services			<u>310,229</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through the Oklahoma Department of Emergency Management:			
Emergency Management Performance Grants	97.042	N/A	<u>20,000</u>
Total U.S. Department of Homeland Security			<u>20,000</u>
Total Expenditures of Federal Awards			<u>\$ 822,402</u>

OSAGE COUNTY, OKLAHOMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Basis of Presentation

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

Indirect Cost Rate

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

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
OSAGE 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 Osage County, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statement, which collectively comprises Osage County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated June 24, 2019.

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, 2016, 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 Osage 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 Osage County's internal control. Accordingly, we do not express an opinion on the effectiveness of Osage 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 questioned costs that we consider to be material weaknesses: 2016-001, 2016-002, 2016-003, 2016-006, and 2016-017.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Osage 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 item 2016-006.

Osage County's Response to Findings

Osage County's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Osage 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

June 24, 2019

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

TO THE OFFICERS OF
OSAGE COUNTY, OKLAHOMA

Report on Compliance for Each Major Federal Program

We have audited the compliance of Osage County, Oklahoma, with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Osage County's major federal programs for the year ended June 30, 2016. Osage County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Osage County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Osage County's compliance.



Basis for Qualified Opinion on Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG)

As described in findings 2016-013 and 2016-014 in the accompanying schedule of findings and questioned costs, Osage County did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2016-013	14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG)	Cash Management
2016-014	14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG)	Procurement

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

Qualified Opinion on CFDA 14.228 – Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Osage County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 14.228 – Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG) for the year ended June 30, 2016.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Osage County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2016.

Other Matters

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-010 and 2016-011, that we consider to be material weaknesses.

Osage County's Response to Findings

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S., section 24A.1 et seq.), and shall be open to any person for inspection and copying.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

June 24, 2019

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SECTION 1—Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

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

Noncompliance material to 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:

- Community Development Block Grants/
State's program and Non-Entitlement Grants in Hawaii Qualified
- Special Programs for the Aging, Title III, Part B,
Grants for Supportive Services and Senior Centers Unmodified
- Special Programs for the Aging, Title III, Part C, Nutrition Services Unmodified
- Nutrition Services Incentive Program Unmodified

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

Identification of Major Programs

CFDA Number(s)

14.228

93.044

93.045

93.053

Name of Federal Program or Cluster

Community Development Block Grants/State's
program and Non-Entitlement Grants in Hawaii
Special Programs for the Aging, Title III, Part B,
Grants for Supportive Services and Senior Centers
Special Programs for the Aging, Title III, Part C,
Nutrition Services
Nutrition Services Incentive Program

Dollar threshold used to distinguish between

Type A and Type B programs: \$750,000

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

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 2016-001 - Inadequate County Wide Controls (Repeat Finding-2008-024, 2009-025, 2010-025, 2011-001, 2012-001, 2013-001, 2014-001, 2015-001)

Condition: County Wide controls regarding Risk Assessment and Monitoring have not been designed.

Cause of Condition: Procedures have not been designed to address risks of the County.

Effect of Condition: This condition could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the County design 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.

Management Response:

Chairman of the BOCC and County Clerk: The Board of County Commissioners meet every Monday and is attended by the other elected officials most of the time. Each person attending is required to sign in. The downtown offices give quarterly updates to the Board. Osage County has recently updated its Alcohol & Drug Policy and is in the process of working on either creating or updating other policies and procedures. The County strives to hold quarterly meetings to discuss situations that may affect the County. The County also provides safety training to all its personnel. The elected officials meet and go over the Estimate of Needs from the departments before they are presented to the Excise Board. The County will strive to resolve this finding.

County Treasurer: The County Officials have a plan to meet regularly to discuss any internal issues. Most of the officials attend the weekly Commissioners meeting. We resolve to discuss and have a better understanding of the County's risks.

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 made. 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

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.

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 2016-002 - Segregation of Duties over the Payroll Process (Repeat Finding-2008-005, 2009-006, 2010-006, 2011-002, 2012-002, 2013-002, 2014-002, 2015-002)

Condition: A lack of segregation of duties exists in the County Clerk's office because the Payroll Clerk adds new hires to the payroll system, makes changes to payroll, processes payroll claims, issues payroll, prints payroll, and has access to blank warrants and signature stamps.

Cause of Condition: Procedures have not been designed to adequately segregate the duties within the payroll department.

Effect of Condition: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends management be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management's oversight of office operations and a periodic review of operations. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, having management review and approval of accounting functions, and limited access to blank warrants and signature stamps.

Management Response:

County Clerk: We have been working on this over the last year and we now have three people checking payroll. We no longer use signature stamps. We do use electronic signatures and obtained permission before doing so. Each warrant is then initialed by me or the Chairman of the Board before they are registered with the Treasurer's office. Every effort is being made to separate the duties of the payroll clerk. I will be working with my employees to develop procedures to separate some of these duties. Payroll warrants are distributed to the departments to hand out. The only time individual warrants are handed out is in the event of a new hire or a termination and the employee has requested to pick up their payroll warrant rather than have it mailed to them.

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Finding 2016-003 - Segregation of Duties over Treasurer's Office Receipting Process and Information Technology Controls

Condition: Upon review of the internal control process and review of the computer system within the County Treasurer's office, it was noted that there does not appear to be adequate controls in place to safeguard from unauthorized modification, loss, or disclosure. The following was noted:

- One employee issues receipt, completes bank reconciliations, prepares and signs apportionment ledger, prepares and signs monthly reports, and apportions revenue.
- There is a segregation of duties issue with the IT system when the Security Officer has reconciling or cashier functions.
- The IT System security log is rarely reviewed.

Cause of Condition: Policies and procedures have not been designed to adequately segregate duties within the Treasurer's Office and computer policies have not been developed to ensure IT controls are properly designed and implemented.

Effect of Condition: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, misappropriation of funds, compromised security for computers, computer programs, and data.

Recommendation: OSAI recommends management be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management's oversight of office operations and a periodic review of operations. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office and having management review and approval of accounting functions. Furthermore, OSAI recommends the County implement internal control policies and procedures over information technology to include the following:

- Ensure that the assigned Security Officer does not also perform cashier duties.
- Review the security log periodically for unusual entries.

Management Response:

County Treasurer: The Treasurer's office is fairly small and there are times when one employee is doing several duties. We remedy this by having a second employee audit all deposits and verify the bank deposit. The daily deposits are individually done by three employees and the final deposit to the bank is normally done by the first deputy. The General deposit is compiled and verified by two employees. I am cross

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

training employees and will be in compliance for the next audit. We are working daily to separate the Treasurer's office duties. I am changing the assigned Security Officer so there won't be a conflict concerning authorizing transactions and physical custody of assets. We are printing the security log more frequently and two employees are checking it, verifying it is correct and signing and dating.

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

According to the standards of the Information Systems Audit and Control Association (CobiT, Deliver and Support DS5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing security on monitoring and periodic testing and implementing corrective actions for identified security weakness or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

Finding 2016-006 - Inadequate Internal Controls and Noncompliance Over Disbursement of Grant Funds

Condition: Upon receiving the CDBG grant for \$262,322 from the Oklahoma Department of Commerce, Osage County deposited the funds into the County's General Bank account. The County then wrote a Treasurer's check to the Rural Water District without following the proper purchasing procedures.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that funds are being properly recorded on the County's financial statement.

Effect of Condition: This condition resulted in noncompliance with state statute and federal compliance requirements. This condition could result in unrecorded transactions, undetected errors, and misappropriation of funds, inaccurate records, and/or incomplete information.

Recommendation: OSAI recommends the County design and implement policies and procedures to ensure compliance with purchasing guidelines and federal compliance requirements.

Management Response:

Chairman of the BOCC and County Clerk: We have discussed this with the Auditor's office and have better understanding of what procedures should be followed in these circumstances and will do so in the future. The County will also follow the proper purchasing procedures.

County Treasurer: We have been informed of the proper way to receipt and distribute these funds and will proceed with this process in the future.

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Criteria: Effective internal controls require management to design procedures to ensure all funds are correctly recorded, distributed, and expended properly and ensure that purchases comply with Title 19 O.S. § 1505.

Finding 2016-017 – Inadequate 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 in, transfers out, and disbursements were misstated as shown below:

	Beginning Cash Balances July 1, 2015	Apportionments	Transfer In	Transfer Out	Disbursements	Ending Cash Balances June 30, 2016
Initial	21,215,546	21,496,091	1,304,411	1,304,411	20,190,453	22,258,861
Amended	20,823,247	20,410,531	1,478,284	1,268,631	19,807,669	21,635,762
Variance	392,299	1,085,560	(173,873)	35,780	382,784	623,099

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 apportionments to be materially 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:

Chairman of the BOCC: The County Treasurer has revised the County’s financial statement and removed the Trust and Agency funds.

County Treasurer: I have reviewed the proposed adjustment to the Financial Statement and made the necessary corrections. I have removed the Trust and Agency funds from the County Financial Statement.

Criteria: An important aspect of internal control is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by the entity’s governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or untimely detection of unauthorized acquisition, use, or disposition of the entity’s assets and safeguarding assets from loss, damage, or misappropriation.

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Finding 2016-010 - Inadequate County-Wide Internal Controls Over Major Federal Programs – Community Development Block Grants/State’s program and Non-Entitlement Grants in Hawaii (CDBG)

PASS-THROUGH GRANTOR: Oklahoma Department of Commerce

FEDERAL AGENCY: U. S. Department of Housing and Urban Development

CFDA NO: 14.228

FEDERAL PROGRAM NAME: Community Development Block Grants/State’s program and Non-Entitlement Grants in Hawaii (CDBG)

FEDERAL AWARD NUMBER: CDBG-16316

FEDERAL AWARD YEAR: 2016

CONTROL CATEGORY: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Procurement, Special Tests and Provisions

QUESTIONED COSTS: \$-0-

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

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the County follows grant requirements.

Effect of Condition: This condition could result in noncompliance with grant requirements.

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

Management Response:

Chairman of the BOCC: The County will be working with Indian Nations Council on Governments (INCOG) to develop internal controls and procurement policies to assist with control environment, risk assessment, information, communication and monitoring.

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 made. 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.

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The Control Environment is the foundation for all other components of internal control. When management believes that internal controls are important to meeting its goals and objectives and communicates this belief to its employees at all levels, internal controls are more likely to be functioning well. However, if management views internal controls as unrelated to achieving its goals and objectives, or even as an obstacle, it is almost a certainty that this attitude will be held by all employees, despite official statements or policies to the contrary. This understanding by management of the importance of internal controls and the communication of this importance to its employees are key elements of the control environment.

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.

For a county to run and control its operations, it must have relevant, reliable information, both financial and nonfinancial. That information should be recorded and communicated to management and others within the County who need it and, in a form, and within a time frame that enables them to carry out their internal control and operational responsibilities. In addition, the county needs to make sure that the forms of communications are broad-based, and that information technology management assures useful, reliable, and continuous communications.

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 2016-011 - Inadequate Internal Controls Over Major Federal Programs - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG)

PASS-THROUGH GRANTOR: Oklahoma Department of Commerce

FEDERAL AGENCY: U. S. Department of Housing and Urban Development

CFDA NO: 14.228

FEDERAL PROGRAM NAME: Community Development Block Grant/State's program and Non-Entitlement Grants in Hawaii (CDBG)

FEDERAL AWARD NUMBER: CDBG-16316

FEDERAL AWARD YEAR: 2016

CONTROL CATEGORY: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Procurement, Special Tests and Provisions

QUESTIONED COSTS: \$-0-

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Condition: During the process of documenting the County's internal controls regarding federal disbursements, we noted that the County has not established internal controls to ensure compliance with the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Procurement, Special Tests and Provisions.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the County follows grant requirements.

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

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

Management Response:

Chairman of the BOCC: The County will be working with (INCOG) to develop policies and procedures regarding allowed or unallowed activities, allowable costs/cost principles, cash management and procurement policies.

Criteria: 2 CFR 200.303 internal controls state that:

“The non-Federal entity must:

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

Finding 2016-013 - Noncompliance with Cash Management- Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG)

PASS-THROUGH GRANTOR: Oklahoma Department of Commerce

FEDERAL AGENCY: U. S. Department of Housing and Urban Development

CFDA NO: 14.228

FEDERAL PROGRAM NAME: Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG)

FEDERAL AWARD NUMBER: CDBG-16316

FEDERAL AWARD YEAR: 2016

CONTROL CATEGORY: Cash Management

QUESTIONED COSTS: \$-0-

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Condition: Four (4) of the five (5) payments to the Rural Water District were not expended within the required fifteen (15) day limit. The noncompliance for these payments totaled \$255,322.

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

Effect of Condition: These conditions resulted in noncompliance with federal grant requirements.

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

Management Response:

Chairman of the BOCC: It is the County's understanding that the Department of Commerce has just recently clarified that the County is to pay the contractor directly and the County will do so in the future.

Criteria: 2 CFR 200.303 internal controls state that:

“The non-Federal entity must:

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

(b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.

The County's contract with the Oklahoma Department of Commerce states that: “All funds received shall be expended within fifteen (15) days of receipt.”

Finding 2016-014 - Noncompliance with Procurement – Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG)

PASS-THROUGH GRANTOR: Oklahoma Department of Commerce

FEDERAL AGENCY: U. S. Department of Housing and Urban Development

CFDA NO: 14.228

FEDERAL PROGRAM NAME: Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG)

FEDERAL AWARD NUMBER: CDBG-16316

FEDERAL AWARD YEAR: 2016

CONTROL CATEGORY: Procurement

QUESTIONED COSTS: \$-0-

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Condition: The five (5) total payments to the Rural Water District did not follow the County's purchasing procedures and compliance requirements. The noncompliance for these payments total \$262,322.

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

Effect of Condition: This condition resulted in noncompliance with federal grant requirements and state statute.

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

Management Response:

Chairman of the BOCC: The Department of Commerce has just recently clarified that the County is to pay the contractor directly and the County will do so in the future. The County will also follow the proper purchasing procedures.

Criteria: 2 CFR 200.303 internal controls state that:

“The non-Federal entity must:

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

(b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.

Effective internal controls require that management properly implement procedures to ensure that purchases comply with Title 19 O.S. § 1505.

APPENDIX A

CORRECTIVE ACTION PLAN

(Prepared by County Management)



OSAGE COUNTY COMMISSIONERS
P.O. BOX 87
PAWHUSKA, OKLAHOMA 74056

COMMISSIONERS:
RANDALL JONES
918-287-1570
1ST DISTRICT, PAWHUSKA
KEVIN PASLAY
918-396-2747
2ND DISTRICT, SKIATOOK
DARREN MCKINNEY
918-642-5217
3RD DISTRICT, FAIRFAX

Corrective Action Plan
in accordance with 2 CFR § 200.511c
for the fiscal year ended June 30, 2016

Finding No.	Title (Financial) or CFDA No. & Program Name (Federal)	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001 (Repeat Finding- 2008-024, 2009-025, 2010-025, 2011-001, 2012-001, 2013-001, 2014-001, 2015-001)	Inadequate County Wide Controls (Financial)	The BOCC Chairman and County Clerk responds with, the Board of County Commissioners meet every Monday and is attended by the other elected officials most of the time. Each person attending is required to sign in. The downtown offices give quarterly updates to the Board. Osage County has recently updated its Alcohol & Drug Policy and is in the process of working on either creating or updating other policies and procedures. The County strives to hold quarterly meetings to discuss situations that may affect the County. The County also provides safety training to all its personnel. The elected officials meet and go over the Estimate of Needs from the departments before they are presented to the Excise Board. The County will strive to resolve this finding. Additionally, the County Treasurer responds with, County Officials have plan to meet regularly to discuss any internal issues. Most of the officials attend the weekly Commissioners meeting. We resolve to discuss and have a better understanding of the County's risks.	August 1, 2019	Darren McKinney, BOCC Chairman Sheila Bellamy, County Clerk Sally Hulse, County Treasurer
2016-002 (Repeat Finding- 2008-005, 2009-006, 2010-006, 2011-002, 2012-002, 2013-002, 2014-002, 2015-002)	Segregation of Duties over the Payroll Process (Financial)	The County Clerk responds with, we have been working on this over the last year and we now have three people checking payroll. We no longer use signature stamps. We do use electronic signatures and obtained permission before doing so. Each warrant is then initialed by me or the Chairman of the Board before they are registered with the Treasurer's office. Every effort is being made to separate the duties of the payroll clerk. I will be working with my employees to develop procedures to separate some of these duties. Payroll warrants are distributed to the departments to hand out. The only time individual warrants are handed out is in the event of a new hire or a termination and the employee has requested to pick up their payroll warrant rather than have it mailed to them.	August 1, 2019	Sheila Bellamy, County Clerk
2016-003	Segregation Duties over Treasurer's Office Receipting Process and Information Technology Controls (Financial)	The County Treasurer responds with, he Treasurer's office is fairly small and there are times when one employee is doing several duties. We remedy this by having a second employee audit all deposits and verify the bank deposit. The daily deposits are individually done by three employees and the final deposit to the bank is normally done by the first deputy. The General deposit is compiled and verified by two	August 1, 2019	Sally Hulse, County Treasurer

		employees. I am cross training employees and will be in compliance for the next audit. We are working daily to separate the Treasurer's office duties. I am changing the assigned Security Officer so there won't be a conflict concerning authorizing transactions and physical custody of assets. We are printing the security log more frequently and two employees are checking it, verifying it is correct and signing and dating.		
2016-006	Inadequate Internal Controls and Noncompliance Over Community Development Block Grant Funds (CDBG) (Financial)	The BOCC Chairman and County Clerk responds with, we have discussed this with the Auditor's office and have better understanding of what procedures should be followed in these circumstances and will do so in the future. The County will also follow the proper purchasing procedures. Additionally, the County Treasurer responds with, we have been informed of the proper way to receipt and distribute these funds and will proceed with this process in the future.	August 1, 2019	Darren McKinney, BOCC Chairman Sheila Bellamy, County Clerk Sally Hulse, County Treasurer
2016-017	Inadequate Internal Controls Over the Financial Statement Presentation (Financial)	The BOCC Chairman responds with, the County Treasurer has revised the County's financial statement and removed the Trust and Agency funds. Additionally, the County Treasurer responds with, I have reviewed the proposed adjustment to the Financial Statement and made the necessary corrections. I have removed the Trust and Agency funds from the County Financial Statement.	August 1, 2019	Darren McKinney, BOCC Chairman Sally Hulse, County Treasurer
2016-010	Inadequate Internal County-Wide Controls Over Major Federal Programs CFDA#14.228-Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG) (Federal)	The BOCC Chairman responds with, the County will be working with Indian Nations Council on Governments (INCOG) to develop internal controls and procurement policies to assist with control environment, risk assessment, information, communication and monitoring.	December 31, 2019	Darren McKinney, BOCC Chairman
2016-011	Inadequate Internal Controls Over Major Federal Programs CFDA#14.228-Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG) (Federal)	The BOCC Chairman responds with, the County will be working with (INCOG) to develop policies and procedures regarding allowed or unallowed activities, allowable costs/cost principles, cash management and procurement policies.	December 31, 2019	Darren McKinney, BOCC Chairman
2016-013	Noncompliance with Cash Management CFDA#14.228-Community Development Block Grants/State's program and Non-Entitlement Grants in	The BOCC Chairman responds with, it is the County's understanding that the Department of Commerce has just recently clarified that the County is to pay the contractor directly and the County will do so in the future.	December 31, 2019	Darren McKinney, BOCC Chairman

	Hawaii (CDBG) (Federal)			
2016-014	Noncompliance with Procurement CFDA#14.228-Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG) (Federal)	The BOCC Chairman responds with, the Department of Commerce has just recently clarified that the County is to pay the contractor directly and the County will do so in the future. The County will also follow the proper purchasing procedures.	December 31, 2019	Darren McKinney, BOCC Chairman

APPENDIX B

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

(Prepared by County Management



OSAGE COUNTY COMMISSIONERS
P.O. BOX 87
PAWHUSKA, OKLAHOMA 74056

COMMISSIONERS:
RANDALL JONES
918-287-1570
1ST DISTRICT, PAWHUSKA
KEVIN PASLAY
918-396-2747
2ND DISTRICT, SKIATOOK
DARREN MCKINNEY
918-642-5217
3RD DISTRICT, FAIRFAX

Osage County
Summary Schedule of Prior Audit Findings
in accordance with 2 CFR § 200.511c
for the fiscal year ended June 30, 2016

FINANCIAL AUDIT FINDINGS

Finding 2008-024, 2009-025, 2010-025, 2011-001, 2012-001, 2013-001, 2014-001, 2015-001

Inadequate County Wide Controls

Finding Summary: County Wide controls regarding Risk Management and Monitoring have not been designed.

Status: Corrective action has not been taken

Finding-2008-005, 2009-006, 2010-006, 2011-002, 2012-002, 2013-002, 2014-002, 2015-002

Segregation of Duties over the Payroll Process

Finding Summary: A lack of segregation of duties exists in the County Clerk's office because the Payroll Clerk adds new hires to the payroll system, makes changes to payroll, processes payroll claims, issues payroll, prints payroll, and has access to blank warrants and signature stamps. There are no original signatures on the warrants.

Status: Corrective action has not been taken

Finding 2014-004, 2015-004

Inadequate Internal Controls and Noncompliance Over Sales Tax

Finding Summary: Upon inquiry and observation of the recordkeeping process of sales tax collections and disbursements, the following was noted:

- A county sales tax was deposited into the County General Fund as specified by Title 60 O.S. § 1370(E). However, the funds were not discretely presented in a separate account within the County General Fund and therefore, sales tax revenues and expenditures made with sales tax funds could not be identified.

Status: Corrective action has been taken, the BOCC Chairman responds with, a fund was created for the collection and enforcement of the sales tax to be deposited into the C&E Sales Tax Fund.

FEDERAL AUDIT FINDINGS

No Prior Year Federal Findings



Cindy Byrd, CPA | State Auditor & Inspector

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