



OSAGE COUNTY

Financial Audit

For the fiscal year ended June 30, 2017

Cindy Byrd, CPA
State Auditor & Inspector

**OSAGE 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

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, 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 letters of the first and last names being capitalized.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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

Board of County Commissioners

District 1 – Jerry Howerton
District 2 – Kevin Paslay
District 3 – Daren McKinney

County Assessor

Gail Hedgcoth

County Clerk

Shelia Bellamy

County Sheriff

Eddie Virden

County Treasurer

Sally Hulse

Court Clerk

Jennifer Burd

District Attorney

Rex Duncan

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

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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, 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 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, 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 Osage County, for the year ended June 30, 2017, 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 other 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 other 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 other 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.

A handwritten signature in blue ink that reads "Cindy Byrd". The signature is written in a cursive, flowing style.

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, 2017

	Beginning Cash Balances July 1, 2016	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2017
Combining Information:						
County General	\$ 4,669,486	\$ 5,100,236	\$ -	\$ 7,893	\$ 5,048,299	\$ 4,713,530
T-Highway	3,492,115	6,070,260	-	-	6,320,445	3,241,930
County Health for the Elderly	3,084,767	798,156	-	-	694,225	3,188,698
Sales Tax	842,687	3,241,173	500,000	-	4,008,754	575,106
Sales Tax Investments	3,475,000	-	-	500,000	-	2,975,000
Use Tax	2,031,474	659,528	-	-	1,452,780	1,238,222
Collection & Enforcement Sales Tax	-	24,191	7,893	-	-	32,084
County Bridge and Road Improvement Fund	854,339	573,654	198,730	-	905,929	720,794
Osage County Nutrition Program	157,979	480,414	-	-	487,554	150,839
Resale Property	1,402,464	476,564	33,224	-	903,992	1,008,260
Special Insurance	23,957	-	-	-	-	23,957
Sheriff Equipment	832	-	-	-	-	832
Sheriff B-4	193,559	269,408	41,815	-	273,225	231,557
County Clerk Records Preservation Fund	260,808	45,670	-	-	31,829	274,649
County Clerk Lien Fee	116,332	19,439	-	-	8,174	127,597
Treasurer Mortgage Certification Fee	99,326	7,195	-	-	52,496	54,025
Community Service	2,856	-	-	-	-	2,856
Capital Outlay and Equipment	1,037	-	-	-	-	1,037
County Sheriff Cash	128,530	185,139	-	-	109,276	204,393
County Assessor Cash	19,477	5,364	-	-	2,091	22,750
Nutrition Donation Fund	3,089	550	-	-	-	3,639
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	175,216	50,735	-	-	41,867	184,084
Sheriff Jail Canteen	60,167	118,708	-	-	103,184	75,691
Free Fair	2,414	90	-	-	50	2,454
Fairgrounds Cash Account	31,953	75,402	-	-	68,583	38,772
E-911 Tower	1,050	-	-	-	-	1,050
Drug Grant #19	75	-	-	-	-	75
Weather Radio Grant	276	-	-	-	-	276
Local Emergency Planning Committee	4,005	7,623	-	-	7,863	3,765
Courthouse Security	41,841	30,136	-	-	4,697	67,280
E-911 Wireless	271,855	195,986	-	-	136,399	331,442
County Lodging Tax	57,684	78,620	-	-	75,986	60,318
Emergency Management Performance Grant	695	-	-	-	-	695
Sheriff Unclaimed Property	46,061	-	-	-	22,202	23,859
Trash Reward	96	-	-	-	-	96
Kennedy Building	2,312	-	-	-	-	2,312
Court Clerk Payroll	49,393	236,771	-	-	231,066	55,098
2015 VOCA Grant	28,331	35,569	-	41,815	22,085	-
Community Development Block Grant-16316	-	59,314	-	-	59,314	-
Combined Total - All County Funds	\$ 21,635,762	\$ 18,845,895	\$ 781,662	\$ 549,708	\$ 21,072,365	\$ 19,641,246

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, 2017**

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, 2017**

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.

Collection & Enforcement Sales Tax – accounts for the 1% sales tax collections received for the enforcement of the sales tax.

County Bridge & 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 were 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.

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

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

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.

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, 2017**

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, 2017**

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, 2017**

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, 2017**

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 Collection & Enforcement Sales Tax 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, 2017**

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 \$321,216 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.

- \$7,893 was transferred from the County General fund to the Collection & Enforcement Sales Tax fund to establish a separate sales tax fund.
- \$33,224 was transferred from Excess Resale (Trust and Agency Fund) fund to the Resale Property fund per state statute.
- \$41,815 was transferred from 2015 VOCA Grant fund to the Sheriff B-4 fund for repayment of loan.
- \$500,000 was transferred from Sales Tax Investments fund to the Sales Tax fund due to the investment maturing.

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

- \$198,730 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.

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, 2017

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 4,669,486	\$ 4,669,486	\$ -
Less: Prior Year Outstanding Warrants	(175,645)	(175,645)	-
Less: Prior Year Encumbrances	(42,297)	(29,438)	12,859
Beginning Cash Balances, Budgetary Basis	4,451,544	4,464,403	12,859
 Total Receipts, Budgetary Basis	 4,647,060	 5,100,236	 453,176
Total Expenditures, Budgetary Basis	9,098,604	5,494,074	3,604,530
 Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	 \$ -	 4,070,565	 \$ 4,070,565
 Less: Operating Transfers		7,893	
 Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		295,604	
Add: Current Year Encumbrances		355,254	
Ending Cash Balance		\$ 4,713,530	

OSAGE COUNTY, OKLAHOMA
NOTE TO OTHER 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 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
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, 2017, 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, 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 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 responses that we consider to be material weaknesses: 2017-001, 2017-002, and 2017-003.

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

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 responses. 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

**OSAGE 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 2017-001 - Inadequate County Wide Controls (Repeat Finding-2008-024, 2009-025, 2010-025, 2011-001, 2012-001, 2013-001, 2014-001, 2015-001, 2016-001)

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 RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 2017-002 - 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, 2016-002)

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 RESPONSES
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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 2017-003 - Segregation of Duties over Treasurer's Office Receipting Process and Information Technology Controls (Repeat Finding-2016-003)

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 RESPONSES
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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.



Cindy Byrd, CPA | State Auditor & Inspector

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