

COUNTY AUDIT

POTTAWATOMIE COUNTY

For the fiscal year ended June 30, 2008



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



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

**POTTAWATOMIE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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Oklahoma State Auditor & Inspector

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February 7, 2012

TO THE CITIZENS OF
POTTAWATOMIE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Pottawatomie County, Oklahoma for the fiscal year ended June 30, 2008. A report of this type is critical in nature; however, we do not intend to imply that our audit failed to disclose commendable features in the present accounting and operating procedures of the County.

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, reading "Gary A. Jones".

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

**POTTAWATOMIE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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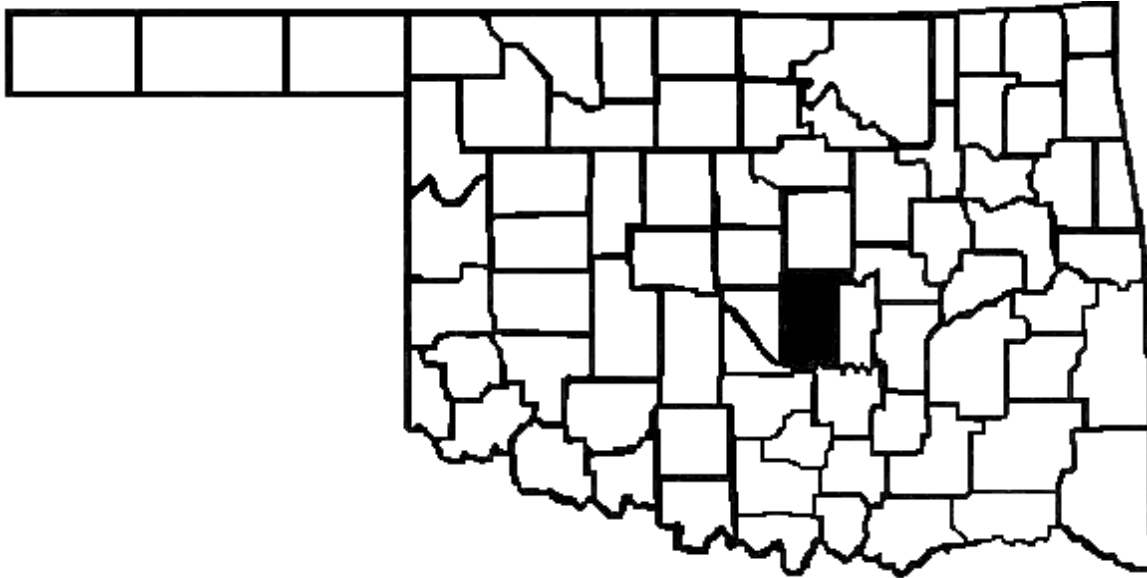
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POTTAWATOMIE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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



Settled by Seminole, Creek, Citizen Band Potawatomi, Absentee Shawnee, Kickapoo, and Sac and Fox Indian Tribes, this area was opened to white settlement in the land run on September 22, 1891, and was designated County “B.” The county name was changed by vote in 1892 to honor the Pottawatomi Indians and means “people of the place of fire.”

Tecumseh, originally the county seat, soon lost to the fast growing community of Shawnee which was also in competition for the state capitol. City fathers even went so far as to build a proposed governor’s mansion. The oil and railroad industries were vital to the development of some Pottawatomie County towns and the decline of others, but agriculture has remained a mainstay of the county’s economy.

History comes to life in annual celebrations such as Frontier Days in Tecumseh and the Heritage Fest in Shawnee. The historic Santa Fe depot, built in 1903, still stands in Shawnee along with other early structures. Pottawatomie County is the site of the Shawnee Indian Reservation and has sixty-three “Ghost Towns.”

Pottawatomie County has two institutions of higher education. Offices of the Shawnee, Potawatomi, and Sac and Fox tribes are located in the county. For more information, call the county clerk’s office at (405) 273-8222.

County Seat – Shawnee

Area – 793.26 Square Miles

County Population – 68,272 (2005 est.)

Farms – 1,663

Land in Farms – 343,119 Acres

Primary Source: Oklahoma Almanac 2007-2008

See independent auditor’s report.

**POTTAWATOMIE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

COUNTY ASSESSOR
Troyce King

The County Assessor has the responsibility to appraise and assess the real and personal property within the county for the purpose of ad valorem taxation. Also, the County Assessor is required to compute the ad valorem taxes due on all taxable property. The County Assessor appraises all the taxable real and personal property according to its fair cash value for which the property is actually being used as of January 1 of the taxable year at the percentages provided for in Article 10, § 8 of the Oklahoma Constitution.

The County Assessor is required to build and maintain permanent records of the taxable real property and tax exempt real property within the county. Information entered on each record includes the property's legal description, owner's name and address, and the homestead exemption status of the owner.

COUNTY CLERK
Nancy Bryce

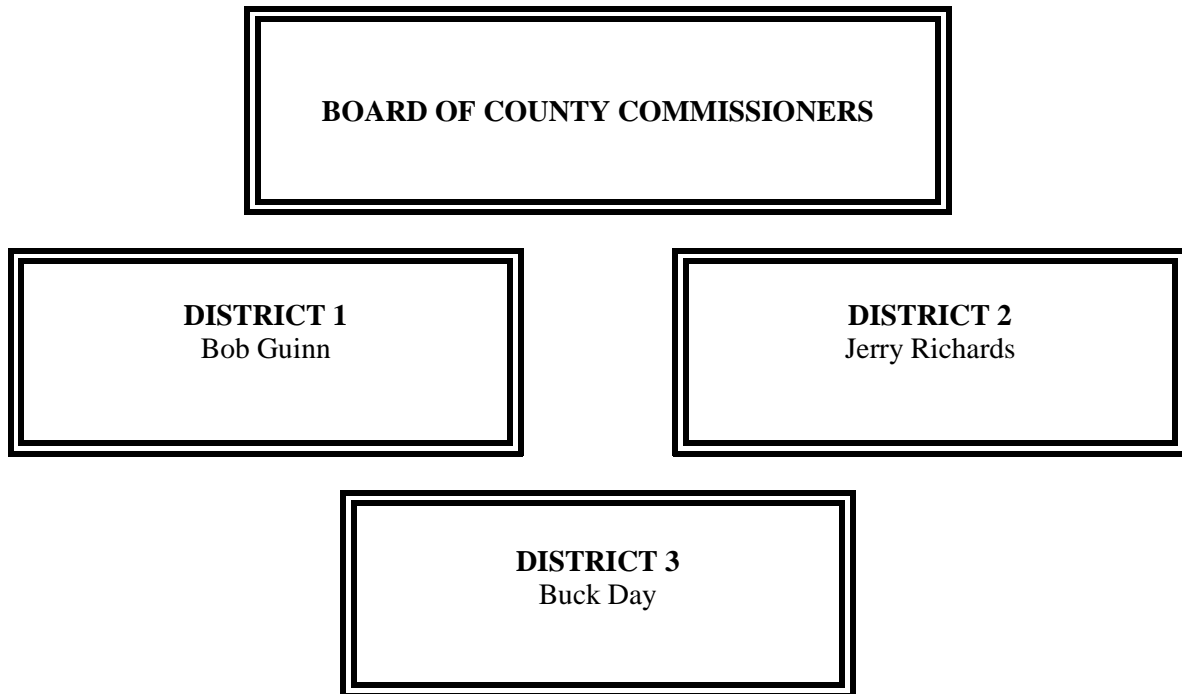
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

The County Clerk reviews all the claims for payment of goods and services purchased or contracted by the county, and prepares the proper warrants for payment of those goods and services and the county payroll. The County Clerk, or his or her designated deputy, serves as the purchasing agent for the county. This system is a means to ensure the public that tax dollars are being spent appropriately.

Various records within the different county offices are classified as “open records.” As such, they can be reviewed and mechanically copied by the public.

See independent auditor’s report.

**POTTAWATOMIE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**



The Board of County Commissioners is the chief administrative body for the county. County Commissioners are also responsible for maintaining and constructing the county roads and bridges.

The Commissioners must act as a Board when entering into contracts or other agreements affecting the county's welfare. Thus, actions taken by the Board are voted on and approved by a majority of the Commissioners. The Board of County Commissioners' business meetings are open to the public.

As the county's chief administrative body, the three County Commissioners must make major financial decisions and transactions. The Board has the official duty to ensure the fiscal responsibility of the other county officers who handle county funds. The review and approval procedures empowered to the Board of County Commissioners are a means to provide the public with a fiscally efficient system of county government.

See independent auditor's report.

**POTTAWATOMIE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

COUNTY SHERIFF
Kurt C. Shirey

The County Sheriff is responsible for preserving the peace and protecting life and property within the county's jurisdiction. As the county's chief law enforcement officer, the Sheriff has the power and authority to suppress all unlawful disturbances, to apprehend and secure persons charged with felony or breach of peace, and to operate the county jail.

The County Sheriff has the responsibility of serving warrants and processing papers ordered by the District Court.

COUNTY TREASURER
Michelle Pecore

All collections by county government from ad valorem taxes and other sources are deposited with the County Treasurer. The County Treasurer collects ad valorem taxes for the county and its political subdivisions. The County Treasurer is authorized to issue delinquent personal property tax warrants and to impose tax liens on real property for delinquent taxes.

To account for county collections and disbursements, the County Treasurer is required to maintain an accurate record of all the monies received and disbursed.

See independent auditor's report.

**POTTAWATOMIE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

COURT CLERK
Reta Head

The Court Clerk has the primary responsibility to record, file, and maintain as permanent records the proceedings of the District Court.

Court proceedings are recorded in the appropriate journal or record docket. All the court proceedings are public information except those related to juvenile, guardianship, adoption, and mental health cases.

The Court Clerk issues marriage licenses, passports, notary certificates, beer and pool hall licenses, and private process server licenses.

Monies from the court fund are identified for distribution by the Court Clerk to the appropriate units of county and state government.

DISTRICT ATTORNEY
Richard Smothermon

As the chief attorney for county government, the District Attorney acts as the legal advisor to the county officers on matters related to their duties. The District Attorney represents the county in civil litigation. County officials may call upon the District Attorney to clarify a law or request an official interpretation from the Attorney General.

See independent auditor's report.

**POTTAWATOMIE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

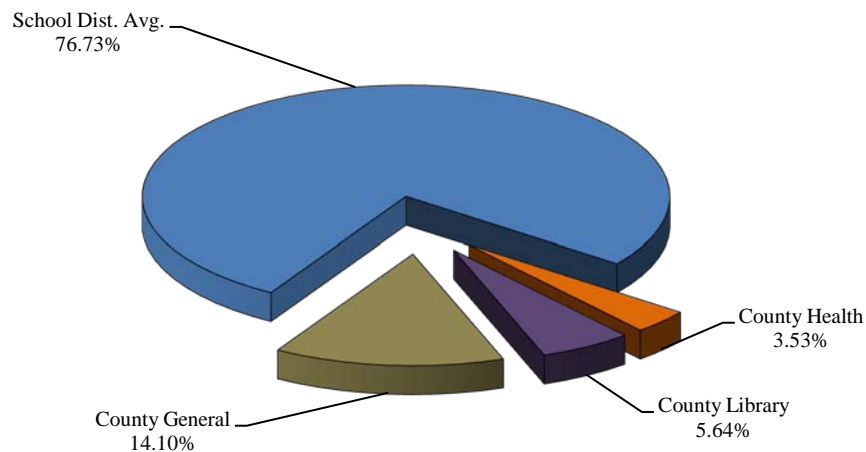
ELECTION BOARD SECRETARY Diana Knight

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

To finance the operation of the County Election Board, the County Excise Board must appropriate sufficient funds annually. The state and counties split the election costs, but counties must pay for any county elections not held concurrently with state elections.

**POTTAWATOMIE COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



County-Wide Millages				School District Millages					
				Gen.	Bldg.	Skg.	City Sinking	Common	Total
County General	10.15								
County Health	2.54	McCloud	I-1	35.66	5.09	9.08		4.06	53.89
County Library	4.06	Dale	I-2	35.82	5.12	16.83		4.06	61.83
		Bethel	I-3	35.77	5.11	13.01		4.06	57.95
		Macomb	I-4	35.94	5.13	15.25		4.06	60.38
		Earlsboro	I-5	35.88	5.13			4.06	45.07
		Tecumseh	I-92	35.71	5.10	20.31		4.06	65.18
		Shawnee	I-93	35.31	5.04	20.17	0.60	4.06	65.18
		Asher	I-112	36.16	5.17	27.05		4.06	72.44
		Wanette	I-115	36.17	5.17			4.06	45.40
		Maud	I-117	35.94	5.13	13.34		4.06	58.47
		North Rock Creek	C-10	35.20	5.03	11.13		4.06	55.42
		Grove	C-27	35.48	5.07	13.52		4.06	58.13
		Pleasant Grove	C-29	35.46	5.07	16.15		4.06	60.74
		South Rock Creek	C-32	35.77	5.11	8.08		4.06	53.02
		Gordon Cooper Technology Center	VT-5	10.12	5.06				15.18

See independent auditor's report.

**POTTAWATOMIE COUNTY, OKLAHOMA
COMPUTATION OF LEGAL DEBT MARGIN
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Total net assessed value as of January 1, 2007		<u>\$ 255,495,863</u>
Debt limit - 5% of total assessed value		12,774,793
Total bonds outstanding	-	
Total judgments outstanding	-	
Less cash in sinking fund	<u>46,751</u>	<u>-</u>
Legal debt margin		<u>\$ 12,774,793</u>

See independent auditor's report.

POTTAWATOMIE COUNTY, OKLAHOMA
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
VALUE AND NET BONDED DEBT PER CAPITA
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

	<u>2008</u>
Estimated population	<u>68,272</u>
Net assessed value as of January 1, 2007	<u>\$ 255,495,863</u>
Gross bonded debt	-
Less available sinking fund cash balance	<u>46,751</u>
Net bonded debt	<u>\$ -</u>
Ratio of net bonded debt to assessed value	<u>0.00%</u>
Net bonded debt per capita	<u>\$ -</u>

See independent auditor's report.

**POTTAWATOMIE COUNTY, OKLAHOMA
ASSESSED VALUE OF PROPERTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2007	\$41,345,346	\$32,180,021	\$198,733,497	\$16,763,001	\$255,495,863	\$2,141,488,627

See independent auditor's report.

FINANCIAL SECTION



Oklahoma State Auditor & Inspector

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

Independent Auditor's Report

TO THE OFFICERS OF POTTAWATOMIE COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Pottawatomie County, Oklahoma, as of and for the year ended June 30, 2008, listed in the table of contents as the basic financial statement. This financial statement is the responsibility of Pottawatomie County's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared using accounting practices prescribed or permitted by Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Pottawatomie County as of June 30, 2008 or changes in its financial position for the year then ended.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash of Pottawatomie County, for the year ended June 30, 2008, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2012, on our consideration of Pottawatomie County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the combined total of all funds within the basic financial statement taken as a whole. The combining information is presented for purposes of additional analysis rather than to present the receipts, disbursements, and cash balances of the individual funds. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statement. The schedule of expenditures of federal awards has not been subjected to the auditing procedures applied in the audit of the basic financial statement because management lacks sufficient documentation to support the schedule of expenditures of federal awards for the Disaster Grants – Public Assistance (97.036), and, accordingly, we express no opinion on the schedule of expenditures of federal awards. Also, the other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the basic financial statement. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statement taken as a whole. Pottawatomie County has not presented budgetary comparison information for the Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—General Fund and Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—County Health Department Fund. Although not a part of the basic financial statement, such information is an integral part of the regulatory presentation for county government. The information listed in the table of contents under Introductory Section has not been audited by us, and accordingly, we express no opinion on it.

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

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

January 27, 2012

Basic Financial Statement

POTTAWATOMIE COUNTY, OKLAHOMA
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Beginning Cash Balances July 1, 2007	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2008
Combining Information:				
General Fund	\$ 727,854	\$ 3,592,035	\$ 3,429,791	\$ 890,098
County Highway	2,419,980	4,155,176	4,034,914	2,540,242
Restricted Highway	3,914			3,914
County Health	699,130	683,768	800,983	581,915
Resale Property	408,491	196,526	208,297	396,720
Courthouse Renovation	3,960			3,960
Community Service Grant	14			14
County Assessor Fees	9,211	12,649	8,064	13,796
County Clerk Lien Fee	14,645	26,554	29,293	11,906
County Treasurer Mortgage Tax	19,776	16,880	17,815	18,841
Child Abuse Prevention	12,042	1,216		13,258
Self-Insurance	1,037			1,037
Sheriff Service Fee	141,602	184,535	223,764	102,373
Sheriff Training	543		480	63
Sheriff Drug Buy	380			380
Social Services Cash	31,414	1,125	30,525	2,014
Birdie Lane Road Improvement District	2,979	103		3,082
Westgate Road Improvement District	21,300	735		22,035
Romburg #13 Road Improvements	61,171	2,110		63,281
Sales Tax Maintenance/Repair/Improvements	2,988,707	5,029,061	4,019,082	3,998,686
Sales Tax Pottawatomie County Fire Department	845,297	547,745	462,179	930,863
Sales Tax Emergency Services	651,494	292,070	440,577	502,987
Sales Tax Economic Development	659,650	162,686		822,336
Sales Tax OSU Extension Center	107,207	176,885	147,320	136,772
Sales Tax Soil Conservation	60,320	71,374	64,119	67,575
Sales Tax Pottawatomie County Free Fair	168,030	75,294	54,542	188,782
Sales Tax Senior Citizens	191,002	156,362	135,509	211,855

continued on next page

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

**POTTAWATOMIE COUNTY, OKLAHOMA
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

continued from previous page

	Beginning Cash Balances July 1, 2007	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2008
Combining Information:				
Use Tax Courthouse Capital Improvements	1,097,450	691,886	306,272	1,483,064
County Clerk Preservation Fee	150,246	108,019	132,840	125,425
CDBG (93-73) Bathroom	90			90
Community Sentencing	1,117	30,571	2,151	29,537
Pottawatomie County Drug Court	50,222	187,373	170,156	67,439
Law Enforcement Grant	53			53
County Sinking	46,751			46,751
Town of Johnson	292			292
Sales Tax Pottawatomie County Public Safety	217,872	1,389,456	1,489,228	118,100
Sales Tax Capital Improvements Jail/Highway	54,468	320,859	372,307	3,020
CDBG Tribbey	140,100	900	140,100	900
CDBG 59B	2,347	1,303		3,650
CDBG #11876	14,496	68,576	82,572	500
Acme Road Building Maintenance	9,720	12,960		22,680
Sheriff Courthouse Security	10,783	26,284		37,067
Pottawatomie County 911 System	52,399	270,872	233,815	89,456
Pottawatomie County Wireless 911 System		236,129	170,858	65,271
Combined Total--All County Funds	\$ 12,099,556	\$ 18,730,077	\$ 17,207,553	\$ 13,622,080

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

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Counties were created by the Constitution of Oklahoma. One county officer is appointed; however, most county officers are locally elected by their constituents. All county powers are delegated by the state.

The accompanying basic financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds of Pottawatomie County, Oklahoma. The funds presented as line items are not a part of the basic financial statement, but have been included as supplementary information within the basic financial statement. These separate funds are established by statute, and their operations are under the control of the County officials. The general fund is the County's general operating fund, accounting for all financial resources except those required to be accounted for in another fund. The other funds presented account for financial resources whose use is restricted for specified purposes.

B. Fund Accounting

The County uses funds to report on receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are descriptions of the funds included as supplementary information within the financial statement:

General Fund - accounts for the general operations of the government.

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

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

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

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

Courthouse Renovation – accounts for monies used for the renovation and remodeling of courthouse property.

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Community Service Grant – accounts for grant monies received and disbursed as restricted by the grant agreement.

County Assessor Fees – accounts for the collection of fees for copies as restricted by state statute.

County Clerk Lien Fee – accounts for lien collections and disbursements of sheriff process service fees as restricted by statutes.

County Treasurer Mortgage Tax – accounts for the collection of fees by the Treasurer for mortgage tax certificates and the disbursement of the funds as restricted by statutes.

Child Abuse Prevention – accounts for monies from donated juror's fees to be disbursed in accordance with state statutes.

Self-Insurance – accounts for appropriations to be disbursed for repairs to vehicles that may be damaged on county roads.

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

Sheriff Training – accounts for forfeiture monies and disbursed for training purposes only.

Sheriff Drug Buy – accounts for forfeiture monies and disbursed as drug buy money.

Social Services Cash – accounts for rent paid to County by DHS for the general upkeep of the property.

Birdie Lane Road Improvement District – accounts for monies collected from property owners to pay off bonds that were obtained for road improvements.

Westgate Road Improvement District – accounts for monies collected from property owners to pay off bonds that were obtained for road improvements.

Romburg #13 Road Improvements – accounts for monies collected from property owners to pay off bonds that were obtained for road improvements.

Sales Tax Maintenance/Repair/Improvements – accounts for the collection of sales tax to be disbursed for the maintenance, repair, and improvement of county roads and bridges.

Sales Tax Pottawatomie County Fire Department – accounts for the collection of sales tax to be disbursed for the Pottawatomie County Fire Department.

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Sales Tax Emergency Services – accounts for the collection of sales tax to be disbursed for the emergency services.

Sales Tax Economic Development – accounts for the collection of sales tax to be disbursed for economic development.

Sales Tax OSU Extension Center – accounts for the collection of sales tax to be disbursed for the OSU Extension Center.

Sales Tax Soil Conservation – accounts for the collection of sales tax to be disbursed for the soil conservation service.

Sales Tax Pottawatomie County Free Fair – accounts for the collection of sales tax to be disbursed for the Pottawatomie County Free Fair/Junior Livestock Show.

Sales Tax Senior Citizens – accounts for the collection of sales tax to be disbursed for the Senior Citizens Center.

Use Tax Courthouse Capital Improvements – accounts for the collection of sales tax to be disbursed for capital improvements.

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

CDBG (93-73) Bathroom – accounts for grant monies to be disbursed as restricted by grant agreement.

Community Sentencing – accounts for reimbursement of monies for community service workers from the Department of Corrections to be disbursed for the general operation of the office.

Pottawatomie County Drug Court – accounts for monies from payments for drug testing to be disbursed for the general upkeep of the office.

Law Enforcement Grant – accounts for grant monies received and used to purchase equipment as restricted by the grant agreement.

County Sinking – accounts for the payments of interest and principal on the matured portion of long-term bonded debt and civil judgments. Debt service receipts are derived generally from a special ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments. There is currently no long-term debt. The remaining balance will be transferred to the general fund.

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Town of Johnson – accounts for federal funds to be used for road improvements.

Sales Tax Pottawatomie County Public Safety – accounts for sales tax revenue to build and operate the jail.

Sales Tax Capital Improvements Jail/Highway – accounts for sales tax revenue to be used for capital improvements for the Public Safety Center (Jail) and county roads and bridges.

CDBG Tribbey – accounts for federal funds to be used for road improvements.

CDBG 59B – accounts for federal funds to be used for road improvements.

CDBG #11876 – accounts for federal funds to be used to make repairs to low income homeowners' dwellings.

Acme Road Building Maintenance – accounts for rental monies received and used for maintenance of the building.

Sheriff Courthouse Security – accounts for fees received to provide security at the county courthouse.

Pottawatomie County 911 System – accounts for fees received to maintain the 911 system.

Pottawatomie County Wireless 911 System – accounts for fees received to maintain the 911 system.

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

C. Basis of Accounting

The basic financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred. This cash basis financial presentation is not a comprehensive measure of economic condition or changes therein.

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

D. Budget

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

For the highway funds and other funds, which are not required to adopt a formal budget, appropriations are made on a monthly basis, according to the funds then available.

E. Cash

The County pools the cash of its various funds in maintaining its bank accounts. However, cash applicable to a particular fund is readily identifiable on the County's books. The balance in the pooled cash accounts is available to meet current operating requirements.

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County's deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

F. Investments

The County Treasurer has been authorized by the County's governing board to make investments. By statute (62 O.S. § 348.1 and § 348.3), the following types of investments are allowed:

- U.S. Government obligations
- Certificates of deposit
- Savings accounts
- G.O. bonds issued by counties, municipalities or school districts
- Money judgments against counties, municipalities or school districts
- Bonds and revenue notes issued by a public trust when the beneficiary of the trust is a county, municipality or school district
- Negotiable certificates of deposit
- Prime bankers acceptance which are eligible for purchase by the Federal Reserve System
- Prime commercial paper with a maturity of 180 days or less
- Repurchase agreements
- Money market funds regulated by the Securities and Exchange Commission and which investments consist of the above-mentioned types of investments

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured.

G. Compensated Absences

Vacation benefits are earned by the employee during the year and may not be accumulated. Employees with 1 to 5 service years earn 10 days per year, employees with 6 to 15 service years earn 15 days per year, and employees with years exceeding 15 years earn 20 days per year. Vacation leave is accrued monthly and must be earned before it is taken. Vacation leave is not carried over from one year to the next. Upon termination, annual leave is paid for the balance of accrued annual leave up to the accumulation limit.

Sick leave benefits are accrued at the rate of 8 hours per month and employees may accumulate up to 130 days. Sick leave is not paid upon termination.

2. Ad Valorem Tax

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

The assessed property value as of January 1, 2007, was approximately \$255,495,863.

Per Article 10, § 8A, with the repeal of personal property tax, the millages with the adjustment factor are 10.15 mills for general fund operations, 2.54 mills for county health department, and 4.06 mills for county library. In addition, the County collects the ad valorem taxes assessed by school districts and remits the ad valorem taxes collected to the appropriate taxing units.

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year.

Current year tax collections for the year ended June 30, 2008, were approximately 96.76 percent of the tax levy.

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

3. Fuel Tax

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the county highway fund.

4. Risk Management

ACCO-SIG - The County is exposed to the various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. The County participates in a public entity risk pool: Association of County Commissioners of Oklahoma-Self-Insurance Group (ACCO-SIG). If claims exceed the authorized deductibles, the County could have to pay its share of any pool deficit. A judgment could be assessed for claims in excess of the pool's limits.

5. Long-term Obligations

Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/or the equipment vendors or their assignees pursuant to the provisions of 69 O.S. § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest free, but have a one-time fee of 3% on all pieces of machinery acquired.

6. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. County employees are required to contribute between 3.5% and 8.5% of earned compensation. The County contributes between 8.5% and 13.5% of earned compensation. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributes 13.5% of earned compensation for elected officials. The County's contributions to the Plan for the years ending June 30, 2008, 2007, and 2006, were \$435,779, \$391,253, and \$353,690, respectively, equal to the required contributions for each year.

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

7. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to \$105 each for retirees who are members of an eligible group plan. These benefits are funded on a pay-as-you-go basis as part of the overall retirement benefit. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

8. Contingent Liabilities

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

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

9. Sales Tax

The voters of Pottawatomie County approved a 1% sales tax on July 1, 2003. The sales tax will end June 30, 2013. The sales tax was established to provide revenue for: 56%, maintenance, repair, and improvement of county roads and bridges; 20%, constructing, furnishing, operating,

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

and maintaining the Pottawatomie County Public Safety Center jail facility; 7%, Pottawatomie County Fire Department; 3.5%, emergency services (sheriff, ambulance, and other); 2%, economic development; 2.5%, OSU Extension Center; 1%, soil conservation services; 1%, Pottawatomie County Free Fair/Junior Livestock Show; 2%, senior citizens; and 5%, capital improvements.

OTHER SUPPLEMENTARY INFORMATION

**POTTAWATOMIE COUNTY, OKLAHOMA
DETAILED SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES—SINKING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Beginning Cash Balance	<u>\$ 46,751</u>
Receipts:	<u>-</u>
Total Receipts	<u>-</u>
Disbursements:	<u></u>
Total Disbursements	<u></u>
Ending Cash Balance	<u><u>\$ 46,751</u></u>

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

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTE TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Sinking Fund Schedule

Debt service receipts are derived generally from a special ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments. There is currently no long-term debt. The remaining balance will be transferred to the General Fund.

See independent auditor's report.

**POTTAWATOMIE COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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 State Department of Commerce:			
Community Development Block Grants	14.228	11876 CDBG 05	\$ 68,576
Community Development Block Grants	14.228	11251 CDBG 04	140,100
Total U.S. Department of Housing and Urban Development			<u>208,676</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through State Department of Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA 1707	2,248
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA 1712	158,795
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA 1718	98,940
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA 1735	35,000
Total CFDA #97.036			<u>294,983</u>
Passed Through State Office of Homeland Security:			
Law Enforcement Terrorism Prevention Program	97.067	OK-LEPT 35.068	25,885
Total U.S. Department of Homeland Security			<u>320,868</u>
Total Expenditures of Federal Awards			<u>\$ 529,544</u>

The accompanying note is an integral part of this schedule.
See independent auditor's report.

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Pottawatomie County, and is presented on the *cash basis of accounting*. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



Oklahoma State Auditor & Inspector

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

TO THE OFFICERS OF
POTTAWATOMIE COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Pottawatomie County, Oklahoma, as of and for the year ended June 30, 2008, which comprises Pottawatomie County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated January 27, 2012. Further, Pottawatomie County has not presented budgetary comparison information for the General Fund and County Health Department Fund that should have been included as supplementary information. Our report on the basic financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pottawatomie County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. 2008-1, 2008-5, 2008-7, 2008-8, 2008-9, 2008-10, 2008-11

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pottawatomie County's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

This report is intended solely for the information and use of the management of Pottawatomie County and should not be used 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.

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

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

January 27, 2012



Oklahoma State Auditor & Inspector

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

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

TO THE OFFICERS OF
POTTAWATOMIE COUNTY, OKLAHOMA

Compliance

We were engaged to audit the compliance of Pottawatomie County, Oklahoma, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal program for the year ended June 30, 2008. Pottawatomie County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Pottawatomie County's management. Our responsibility is to express an opinion on Pottawatomie County's compliance based on our audit.

As described in items 2008-13, 2008-14, and 2008-15, in the accompanying schedule of findings and questioned costs, Pottawatomie County did not comply with relevant OMB Circular A-133 Compliance Requirements applicable to its Disaster Grants – Public Assistance (97.036). Pottawatomie County did not maintain documentation to support costs charged to the program: the County was unable to support the work performed with detailed documentation which should have included purchase orders, invoices and transfer documents to verify materials used; timesheets for the labor charged to the project; and a record of equipment usage. Without the detailed supporting documentation, there was no assurance that the work had been completed or that expenditures were expended in accordance with federal compliance requirements.

We were unable to obtain sufficient documentation supporting the compliance of Pottawatomie County with the relevant OMB Circular A-133 Compliance Requirements for the program Disaster Grants – Public Assistance (97.036), nor were we able to satisfy ourselves as to Pottawatomie County's compliance with those requirements by other auditing procedures. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on Pottawatomie County's compliance with requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to its major federal program.

Internal Control Over Compliance

The management of Pottawatomie County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pottawatomie County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of

expressing our opinion on compliance, 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 Pottawatomie County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-13, 2008-14, 2008-15, and 2008-16 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2008-13, 2008-14, 2008-15, and 2008-16 to be material weaknesses.

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

This report is intended solely for the information and use of the management of Pottawatomie County, federal awarding agencies, and pass-through entities and should not be used 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.

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

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

January 27, 2012

**POTTAWATOMIE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

SECTION 1—Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified?..... Yes
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

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

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?..... Yes
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs:Disclaimer

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

Identification of Major Programs

CFDA Number(s)

97.036

Name of Federal Program or Cluster

Disaster Grants - Public Assistance
(Presidentially Declared Disasters)

Dollar threshold used to distinguish between

Type A and Type B programs: \$300,000

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

**POTTAWATOMIE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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 2008-1 - Segregation of Duties

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

Condition:

- Within the County Clerk's office, the purchasing agent and the payroll clerk perform most of the functions of the County Clerk's office. The purchasing agent encumbers, processes, and verifies disbursement information into the purchasing system and then prints and mails the warrants for payment. The purchasing agent then reconciles accounts with the County Treasurer. The payroll clerk enrolls new employees, enters payroll deductions, prints payments related to payroll, direct deposits employee payroll, prints payroll verification report and reconciles reports.
- The County Treasurer has one deputy that prepares the deposit, makes the deposit, receives the bank statement, and prepares the reconciliation.

Effect: A single person who has the opportunity to perform more than one area of recording, authorizing, custody of assets, and execution of transactions could result in not timely detecting unrecorded transactions, misstated financial reports, undetected errors, or 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 overseeing of office operations and a periodic review of operations. OSAI recommends management provide segregation of duties so that no one person is able to perform all accounting functions. 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 approve accounting functions.

Management Response: County Treasurer reviews all bank statements, I will now initial my reviews for documentation. County Clerk will attend any classes that address segregation of duties for small offices. I now have one employee encumbering, one paying bills and one payroll clerk. I have two people sign and check purchase orders when they are encumbered.

**POTTAWATOMIE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Finding 2008- 5 – Signature Stamps

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

Condition: It was noted that all Pottawatomie County Commissioners have and are using signature stamps that are not kept in a secure, locked location. Signature stamps are located throughout the County Clerk's office and the County Commissioner's building, which are accessible and used by several employees.

Effect: This condition could result in undetected errors or a misappropriation of funds.

Recommendation: OSAI recommends that all signature stamps be kept locked in a secure location with a person designated for use of the signature stamp to prevent unauthorized use.

Management Response: District 2 agrees with the finding and will take steps to rectify this. County Clerk signature stamps are now kept in the vault.

Finding 2008 – 7 – Payroll Time Accounting

Criteria: Effective internal controls include timesheets being prepared, reviewed for accuracy, and filed with the payroll department prior to payroll checks being issued. The County's Personnel Policy Handbook and Fair Labor Standards Act require that employees keep accurate records of time worked by employees, including sick, vacation, and compensatory time earned, taken, or paid.

Pottawatomie County Personnel Policy Handbook dated January 2008 states:

Most County employees will follow a normal work schedule of forty (40) hours per week plus an unpaid one-hour lunch period each day.

Compensatory time off will be granted to an employee at the rate of 1 ½ hours for each hour of overtime worked (all hours worked in a work week in excess of 40 hours).

All full-time Pottawatomie County employees shall be entitled to vacation leave that is accrued on a monthly basis in accordance with the schedule outlined below:

**POTTAWATOMIE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<u>Years of Service</u>	<u>Vacation Leave</u>	<u>Accumulation Limits</u>
0-5 years	15 days (10.00 hours per month)	30 days
5-10 years	18 days (12.00 hours per month)	60 days
10-20 years	20 days (13.33 hours per month)	60 days
Over 20 years	25 days (16.67 hours per month)	60 days

Vacation leave must be earned before it is taken.

Sick leave shall accumulate at the rate of 8 hours for each full calendar month of service to the County. Sick leave may be accrued up to a maximum of 130 days

Condition: During the payroll test work, we tested one employee from each office and the following was noted:

County Treasurer

- Timesheets for May and June 2008 were not signed by Supervisor.
- Leave balance summaries do not accurately reflect timesheet activity.
- Leave balance summaries do not reflect vacation leave being accrued on a monthly basis.

County Sheriff

- Timesheets could not be located from July 2007 through June 2008.
- Leave balance summaries could not be located for the months of October and November 2007 and January through March 2008.
- Leave balance summaries do not reflect vacation leave being accrued on a monthly basis.

Court Clerk

- Leave balance summaries do not reflect vacation leave being accrued on a monthly basis.

District 1

- Leave balance summaries do not accurately reflect timesheet activity.
- Leave balance summaries do not reflect vacation leave being accrued on a monthly basis.

District 2

- Leave balance summaries do not reflect vacation leave being accrued on a monthly basis.

District 3

- Leave balance summaries do not reflect vacation leave being accrued on a monthly basis.
- Timesheet for June 2008 was not signed by employee and/or supervisor.

**POTTAWATOMIE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

- May 2008 timesheet and leave balance could not be located.

County Assessor

- Leave balance summaries do not reflect vacation leave being accrued on a monthly basis.
- Leave balance summaries do not accurately reflect timesheet activity.

It was further noted while reviewing the Employee Personnel Policy Handbook 2008 page 15, vacation leave, the County has not chosen an option regarding payment of vacation leave upon separation. The Handbook states “YOUR COUNTY SHOULD CHOOSE ONE OF THE ABOVE ALTERNATIVES. YOU CANNOT USE BOTH.”

Effect: This condition could result in undetected errors, inaccurate records, incomplete information, or misappropriation of funds.

Recommendation: OSAI recommends that all employees prepare timesheets with information of time worked, any leave taken during the month, overtime worked, and accumulated leave balances, in order to comply with the County’s Personnel Policy Handbook and Fair Labor Standards Act. OSAI further recommends that more care be taken in assuring timesheets are calculated properly, balances are transferred, and guidelines are followed as set forth in the Pottawatomie County Personnel Policy Handbook.

Management Response: District 2 will take steps to monitor leave balances to make sure that leave does not exceed limits.

Finding 2008 – 8 - Payroll Reports

Criteria: Effective accounting procedures are necessary to ensure stewardship and accountability of public funds. Failure to perform tasks that are a part of internal controls such as reconciling monthly bank statements to the quarterly 941 reports and the yearly W-3 reports and ensuring the correct amounts to be remitted to OPERS are a deficiency in internal controls.

Condition: We obtained quarterly 941 forms from the County Clerk and W-3 and EFTPS bank statements from the County Treasurer for the calendar year falling within the audit period. Several variances were noted:

* While comparing the Treasurer's EFTPS bank statements to individual amounts posted on the County Clerk’s 941 forms, we noted the following variances for the months July 2007 through September 2007.

	<u>EFTPS Bank Statement</u>	<u>Quarterly 941</u>	<u>Variance</u>
July 2007	\$62,281.40	\$62,197.49	\$83.91
August 2007	\$61,155.97	\$61,550.27	(\$394.30)
September 2007	\$60,382.89	\$60,419.34	(\$36.45)

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*A variance of (\$1,280.97) was noted while comparing County Clerk's 941 forms to the W-3s for the calendar year 2008.

We also obtained OPERS retirement reports from the County Clerk's office. Variances were noted for every month during our audit period. Variances were due to over payments or underpayments made by the County for a total of \$5,327.75.

Effect: This condition could result in misstated financial reports, inaccurate records, or misappropriation of funds.

Recommendation: OSAI recommends that the quarterly 941 reports and yearly W-3 reports be reconciled to the EFTPS account. OSAI further recommends that more care be taken in assuring the correct amounts are remitted to OPERS.

Management Response: County Clerk has a new payroll clerk who is much more diligent. I will start having someone double check payroll.

Finding 2008- 9 - Payroll – Comp Time

Criteria: Effective internal controls include timesheets being prepared, reviewed for accuracy, and filed with the payroll department prior to payroll checks being issued. The Fair Labor Standards Act require that employees keep accurate records of time worked by employees, including sick, vacation, and compensatory time earned, taken, or paid.

Pottawatomie County Personnel Policy Handbook states:

Most County employees will follow a normal work schedule of forty (40) hours per week plus an unpaid one-hour lunch period each day.

Compensatory time off will be granted to an employee at the rate of 1 ½ hours for each hour of overtime worked (all hours worked in a work week in excess of 40 hours).

Condition: During payroll test work, the following was noted for two County Clerk employees:

Employee One (Payroll Clerk)

- Leave balance summary was last updated August 2007.
- Leave balance summary does not accurately reflect timesheet activity.
- July 2007, four (4) hours of comp time was earned. Forty or more hours was not worked in any one week.
- Timesheets were not signed by a supervisor.
- November 2007, employee was paid 80 hours of vacation pay, \$913.60, upon termination with no leave balances or timesheets to support this balance.

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	Comp time per leave balance summaries					Comp time paid per wage sheets	
Month	Beginning balance	Comp accrued	Comp used	Ending balance	Monthly salary	Amount paid	Hours paid
July – 2007	44.13	4.00	44.00	4.13	\$1,975.00	\$753.72	66.00
August	4.13	0.00	0.00	4.13			
September	4.13	0.00	0.00	4.13			
October - 2007	4.13	<u>0.00</u>	<u>0.00</u>	4.13			
Total		4.00	44.00			\$753.72	66.00

Employee Two (Accounts Payable Clerk)

- Timesheets could not be located for July 2007 through June 2008.
- Leave balance summaries were not updated for July through December 2007, no leave balances for January through June 2008.
- May 2008, employee was paid 37 hours of vacation pay, \$449.18, upon termination with no leave balances or timesheets to support this balance.
- Employee was paid for comp time with no timesheets or leave balance to support amounts (see schedule below).

	Comp time per leave balance summaries					Comp time paid per wage sheets	
Month	Beginning balance	Comp accrued	Comp used	Ending balance	Monthly salary	Amount paid	Hours paid
July – 2007	55.38	0.00	0.00	55.38	\$1,975.00		
August	55.38	0.00	0.00	55.38			
September	55.38	0.00	0.00	55.38			
October	55.38	0.00	0.00	55.38			
November	55.38	0.00	0.00	55.38			
December	55.38	0.00	0.00	55.38		\$456.80	40.00
January	55.38	0.00	0.00	55.38			
February	55.38	0.00	0.00	55.38			
March	55.38	0.00	0.00	55.38			
April	55.38	0.00	0.00	55.38			
May	55.38	0.00	0.00	55.38		\$504.23	27.69
June - 2008	55.38	<u>0.00</u>	<u>0.00</u>	55.38			
Total		0.00	0.00			\$961.03	67.69

Effect: This condition could result in inaccurate records, incomplete information, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends that timesheets be prepared and reviewed for accuracy before payroll checks are issued and the employee and the supervisor sign off on the time record. OSAI further recommends that records of leave balances for vacation, sick, and comp time be maintained to assure that employees do not use in excess of that which is accrued.

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Management Response: County Clerk states that the two employees involved in this situation no longer work here. I no longer pay for overtime, I give time off and any overtime worked, has to be approved by me.

Finding 2008-10 – Computer Passwords

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery 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 monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

Condition: After interviews with the County Clerk, it was noted that there are no adequate controls in place to safeguard the County Clerk's data from unauthorized modification, loss or disclosure. The computers in the Clerk's office still have active passwords of terminated employees. These passwords are occasionally used by current employees to access information.

Effect: Security for the computer, computer programs, and data could be compromised.

Recommendation: OSAI recommends the County work with their IT personnel or in conjunction with software vendors to put controls in place that will deactivate terminated employees' passwords.

Management Response: County Clerk now has passwords deleted when an employee leaves.

Finding 2008 –11 – Disaster Recovery Plan

Criteria: CobiT 4.1 DS4.1 states:

Develop a framework for IT continuity to support enterprise-wide business continuity management using a consistent process. The objective of the framework should be to assist in determining the required resilience of the infrastructure and to drive the development of disaster recovery and IT contingency plans. The framework should address the organizational structure for continuity management, covering the roles, tasks, and responsibilities of internal and external service providers, their management and their customers, and the planning processes that create the rules and structures to document, test and execute the disaster recovery and IT contingency plans. The plan should also address items such as the identification of critical resources, noting key dependencies, the monitoring and reporting of the availability of critical resources, alternative processing, and the principles of backup and recovery.

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CobiT 4.1 DS4.2 states:

Develop IT continuity plans based on the framework and designed to reduce the impact of a major disruption on key business functions and processes. The plans should be based on risk understanding of potential business impacts and address requirements for resilience, alternative processing and recovery capability of all critical IT services. They should also cover usage guidelines, roles and responsibilities, procedures, communication processes, and the testing approach.

Condition: The County Clerk and the County Treasurer do not have a Disaster Recovery Plan that addresses how critical information and systems would be restored in the event of a disaster.

Effect: The failure to have a current Disaster Recovery Plan could result in the County being unable to function in the event of a disaster. The lack of a procedure addressing how critical information and/or systems would be restored could cause significant problems in ensuring that County business could continue without interruption.

Recommendation: OSAI recommends the County develop a Disaster Recovery Plan addressing how critical information and/or systems would be restored in the event of a disaster.

Management Response: County Treasurer will review the County Clerk's Disaster Recovery Plan and contact the County Treasurer's Association to see if they have a model plan that I can adopt.

County Clerk: I now have a Disaster Recovery Plan in place.

SECTION 3—Findings related to the Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.

Finding 2008 – 13 - Federal Administrative Costs

PASS-THROUGH GRANTOR: Oklahoma Department of Emergency Management

FEDERAL AGENCY: United States Department of Homeland Security

CFDA NO: 97.036

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

FEDERAL AWARD NUMBER: 1701 DR, 1712 DR, 1718 DR, and 1735 DR

FEDERAL AWARD YEAR: 2008

CONTROL CATEGORY: Activities Allowed, Allowable Costs, Cash Management, Matching, Level of Effort, Earmarking, Period of Availability, and Procurement

QUESTIONED COSTS: \$17,288.95

Criteria: Circular A-133 § ____ .300 (b) states that the auditee shall:

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

FEMA June 2007 Public Assistance Guidebook 322, Chapter 5 Project Management, regarding record keeping states in part:

It is critical that the applicant establish and maintain accurate records of events and expenditures related to disaster recovery work. The information required for documentation describes the “who, what, when, where, why, and how much” for each item of disaster recovery work. The applicant should have a financial and record keeping system in place that can be used to track these elements. The importance of maintaining a complete and accurate set of records for each project cannot be overemphasized. Good documentation facilitates the project formulation, validation, approval, and funding processes.

All of the documentation pertaining to a project should be filed with the corresponding project worksheet (PW) and maintained by the applicant as the permanent record of the project. These records become the basis for verification of the accuracy of project cost estimates during validation of small projects, reconciliation of costs for large projects, and audits.

Applicants should begin the record keeping process before a disaster is declared by the President. To ensure that work performed both before and after a disaster declaration is well documented, potential applicants should:

- designate a person to coordinate the compilation and filing of records;
- establish a file for each site where work has been or will be performed; and
- maintain accurate disbursement and accounting records to document the work performed and the costs incurred.

The Federal Office of Management and Budget requires grant recipients to maintain financial and program records on file for three years following final payment. Records of grant recipients may be subject to the provisions of the Single Audit Act.

Condition: The County has not designed and implemented formal internal controls for reporting of its major programs for Disaster Grants-Public Assistance received for severe storms, tornadoes, and flooding that occurred in 2008, as required by OMB Circular A-133. In particular, administrative costs totaling \$17,288.95 were not accounted for separately to ensure that funds were expended in accordance with federal compliance requirements.

Effect: This condition could result in unallowed federal costs, loss of federal funds, or not meeting program objectives.

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

Management Response: District 1 was not in office at this time. District 2 now has implemented a system to have supporting documentation for federal expenditures.

Finding 2008 – 14 - Federal - Supporting Documentation

PASS-THROUGH GRANTOR: Oklahoma Department of Emergency Management

FEDERAL AGENCY: United States Department of Homeland Security

CFDA NO: 97.036

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

FEDERAL AWARD NUMBER: 1707 DR, 1712 DR, 1718 DR, and 1735 DR

FEDERAL AWARD YEAR: 2008

CONTROL CATEGORY: Activities Allowed, Allowable Costs, Cash Management, Matching, Level of Effort, Earmarking, Period of Availability, and Procurement.

QUESTIONED COSTS: \$257,372.82

Criteria: Circular A-133 § ___.300 (b) states that the auditee shall:

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

FEMA June 2007 Public Assistance Guidebook 322, Chapter 5 Project Management, regarding record keeping states in part:

It is critical that the applicant establish and maintain accurate records of events and expenditures related to disaster recovery work. The information required for documentation describes the “who, what, when, where, why, and how much” for each item of disaster recovery work. The applicant should have a financial and record keeping system in place that can be used to track these elements. The importance of maintaining a complete and accurate set of records for each project cannot be overemphasized. Good documentation facilitates the project formulation, validation, approval, and funding processes.

All of the documentation pertaining to a project should be filed with the corresponding project worksheet and maintained by the applicant as the permanent record of the project. These records become the basis for verification of the accuracy of project cost estimates during validation of small projects, reconciliation of costs for large projects, and audits.

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Applicants should begin the record keeping process before a disaster is declared by the President. To ensure that work performed both before and after a disaster declaration is well documented, potential applicants should:

- designate a person to coordinate the compilation and filing of records;
- establish a file for each site where work has been or will be performed; and
- maintain accurate disbursement and accounting records to document the work performed and the costs incurred.

The Federal Office of Management and Budget requires grant recipients to maintain financial and program records on file for three years following final payment. Records of grant recipients may be subject to the provisions of the Single Audit Act.

Condition: The County has not designed and implemented formal internal controls for reporting of its major programs for Disaster Grants-Public Assistance received for severe storms, tornadoes, and flooding that occurred in 2008, as required by OMB Circular A-133. In particular, adequate supporting documentation could not be provided for 24 of 49 project worksheets totaling \$257,372.82. Detailed invoices and receiving reports to document that funds received were expended in accordance with federal compliance requirements could not be obtained.

Effect: This condition could result in unallowed federal costs, loss of federal funds, or not meeting program objectives.

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

Management Response: District 1 was not in office at this time. District 2 now has implemented a system to have supporting documentation for federal expenditures.

Finding 2008 – 15 - Federal - Supporting Documentation

PASS-THROUGH GRANTOR: Oklahoma Department of Emergency Management

FEDERAL AGENCY: United States Department of Homeland Security

CFDA NO: 97.036

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

FEDERAL AWARD NUMBER: 1707 DR, 1712 DR, 1718 DR, and 1735 DR

FEDERAL AWARD YEAR: 2008

CONTROL CATEGORY: Activities Allowed, Allowable Costs, Cash Management, Matching, Level of Effort, Earmarking, Period of Availability, and Procurement.

QUESTIONED COSTS: \$23,821.33 (noncompliance in sample)
\$223,031.48 (projected to the population)

Criteria: Circular A-133 § ___.300 (b) states that the auditee shall:

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

FEMA June 2007 Public Assistance Guidebook 322, Chapter 5 Project Management, regarding record keeping states in part:

It is critical that the applicant establish and maintain accurate records of events and expenditures related to disaster recovery work. The information required for documentation describes the “who, what, when, where, why, and how much” for each item of disaster recovery work. The applicant should have a financial and record keeping system in place that can be used to track these elements. The importance of maintaining a complete and accurate set of records for each project cannot be overemphasized. Good documentation facilitates the project formulation, validation, approval, and funding processes.

All of the documentation pertaining to a project should be filed with the corresponding PW and maintained by the applicant as the permanent record of the project. These records become the basis for verification of the accuracy of project cost estimates during validation of small projects, reconciliation of costs for large projects, and audits.

Applicants should begin the record keeping process before a disaster is declared by the President. To ensure that work performed both before and after a disaster declaration is well documented, potential applicants should:

- designate a person to coordinate the compilation and filing of records;
- establish a file for each site where work has been or will be performed; and
- maintain accurate disbursement and accounting records to document the work performed and the costs incurred.

The Federal Office of Management and Budget requires grant recipients to maintain financial and program records on file for three years following final payment. Records of grant recipients may be subject to the provisions of the Single Audit Act.

Condition: The County has not designed and implemented formal internal controls for reporting of its major programs for Disaster Grants-Public Assistance received for severe storms, tornadoes, and flooding that occurred in 2008, as required by OMB Circular A-133. In particular, two (2) of the three (3) project worksheets tested did not meet attributes for Compliance Requirement I – Procurement due to lack of proper documentation regarding detailed invoices and receiving reports totaling \$21,559.89.

One project worksheet did not have supporting documentation to support work performed on one of the three sites listed on the project worksheet for a difference in the scope amount and documented amount of \$2,261.44.

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Effect: This condition could result in unallowed federal costs, loss of federal funds, or not meeting program objectives.

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

Management Response: District 1 was not in office at this time. District 2 now has implemented a system to have supporting documentation for federal expenditures.

Finding 2008 – 16 – Federal Program – Internal Control

PASS-THROUGH GRANTOR: Oklahoma Department of Emergency Management

FEDERAL AGENCY: United States Department of Homeland Security

CFDA NO: 97.036

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

FEDERAL AWARD YEAR: 2008

CONTROL CATEGORY: Activities Allowed, Allowable Costs, Cash Management, Matching, Level of Effort, Earmarking, Period of Availability, and Procurement.

QUESTIONED COSTS: \$0

Criteria: Circular A-133 § _____.300 (b) states that the auditee shall:

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

Further, accountability and stewardship should be overall goals in management's accounting of federal funds. Internal controls should be designed to monitor compliance with laws and regulations pertaining to grant contracts.

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

Effect: This condition could result in noncompliance of grant agreements.

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

Management Response: Pottawatomie District 1 is now in the process of implementing internal controls over all federal reporting expenditures. District 2 now has implemented a system to have controls over federal expenditures. Pottawatomie District 3 is now in the process of implementing internal controls over all federal reporting expenditures.

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

Finding 2008 – 12 - Estimate of Needs

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

Title 19 O.S. § 1413.C. states:

The adopted budgets shall be in effect on and after the first day of the fiscal year to which they apply. The budgets as adopted and filed with the excise board shall constitute an appropriation for each fund, subject to final approval of the county excise board as provided in this act, and the appropriation thus made shall not be used for any other purpose except as provided by law.

Title 19 O.S. § 1414.B. states:

At the time required by law, the county excise board shall compute the appropriations and levy the taxes necessary for the county for the budget year in accordance with this act and Section 3017 of Title 68 of the Oklahoma Statutes.

Title 68 O.S. § 3017 states in part:

Third: Deduct from the remainder thus ascertained the estimated probable income from sources other than ad valorem taxation; however, in no event shall the amount of such estimated income exceed ninety percent (90%) of the actual collections from such sources for the previous fiscal year. Provided, that the amount of such estimated income for a school district may be the amount that is chargeable as minimum program income of the district for the purpose of receiving state equalization aid. Also, deduct the estimated probable revenue to be derived from additional collection from taxes in the process of collection of the immediately preceding taxable year; provided that the amount so estimated shall be cash fund balance as hereinafter defined, and shall include none of that portion of the reserve added at the beginning of such year for delinquent tax, and shall not exceed ninety percent (90%) of the actual collections of additional back taxes legally accrued to and credited to the same fund account of the immediately preceding fiscal year.

Fourth: Add to the remainder a reserve for delinquent taxes, the amount of which reserve shall be determined by the excise board, except for any municipality which has opted by resolution to come under the provisions of Section 11-17-201 et seq. of Title 11 of the Oklahoma Statutes, in which case the governing body of such municipality shall

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determine the needs of the municipality for sinking fund purposes, after taking into consideration the amount of uncollected taxes for the previous year or years; provided that the reserve so added shall not exceed twenty percent (20%) or be less than five percent (5%); and provided, further, that the reserve so added shall not be subject to review.

Title 68 O.S. § 3002.A states in part:

Notwithstanding the provisions of the School District Budget Act, each board of county commissioners and the board of education of each school district, shall, prior to October 1 of each year, make, in writing, a financial statement, showing the true fiscal condition of their respective political subdivisions as of the close of the previous fiscal year ended June 30th, and shall make a written itemized statement of estimated needs and probable income from all sources including ad valorem tax for the current fiscal year. Such financial statement shall be supported by schedules or exhibits showing, by classes, the amount of all receipts and disbursements, and shall be sworn to as being true and correct. The statement of estimated needs shall be itemized so as to show, by classes: first, the several amounts necessary for the current expenses of the political subdivision and each officer and department thereof as submitted in compliance with the provisions of Section 3004 of this title; second, the amount required by law to be provided for sinking fund purposes; third, the probable income that will be received from all sources, including interest income and ad valorem taxes; and shall be detailed in form and amount so as to disclose the several items for which the excise board is authorized and required, by this article, to approve estimates and make appropriations.

Condition: The County's 2008-09 Estimate of Needs and Financial Statement for the fiscal year 2007-08 filed by the Board of County Commissioners reflect the following errors:

General Fund:

1. Beginning warrants outstanding, July 1, 2007, recorded on the budget were \$54,712.25 and the County records show \$64,383.87, a difference of \$9,671.62.
2. Warrants since issued reported on the budget were \$87,856.57 and the County records show \$78,040.95, a difference of \$9,815.62.

Ad Valorem net valuations reflected on the Estimate of Needs did not agree to the Assessor's Certified Report to the Excise Board.

Estimate of Needs	\$253,787,082
Assessor's Report	<u>\$255,741,276</u>
Variance	\$1,954,194

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The original appropriations per the Estimate of Needs for the Highway and Health Funds for the fiscal year ending June 30, 2008, did not agree to the Amount Approved by County Excise Board as reported on the Estimate of Needs fiscal year ending June 30, 2007.

Fund	Amount Approved by Excise Board (2007 Estimate of Needs)	Original Appropriations (2008 Estimate of Needs)	Variance
Highway	\$2,018,431.42	\$5,544,783.13	\$3,526,351.71
Health	\$1,100,575.29	\$1,070,619.68	\$ (29,955.61)

Effect: This condition results in an incorrect Estimate of Needs being approved by the Excise Board.

Recommendation: OSAI recommends the Excise Board review the Estimate of Needs prior to approval to ensure that all funds are accurately presented.

Management Response: District 1 plans to review budget to verify that amounts are accurate. District 2 will review the Estimate of Needs for accuracy in the future. County Clerk will start reviewing for accuracy and will talk to the budget director about past problems



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