

**POTTAWATOMIE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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March 9, 2006

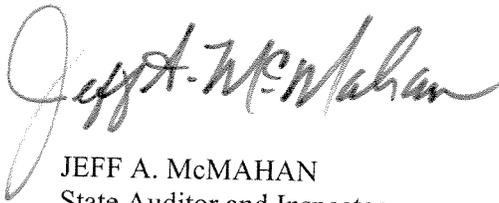
TO THE CITIZENS OF
POTTAWATOMIE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Pottawatomie County, Oklahoma, for the fiscal year ended June 30, 2005. 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.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our audit.

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in cursive script that reads "Jeff A. McMahon". The signature is written in dark ink and is positioned above the printed name and title.

JEFF A. McMAHAN
State Auditor and Inspector

**POTTAWATOMIE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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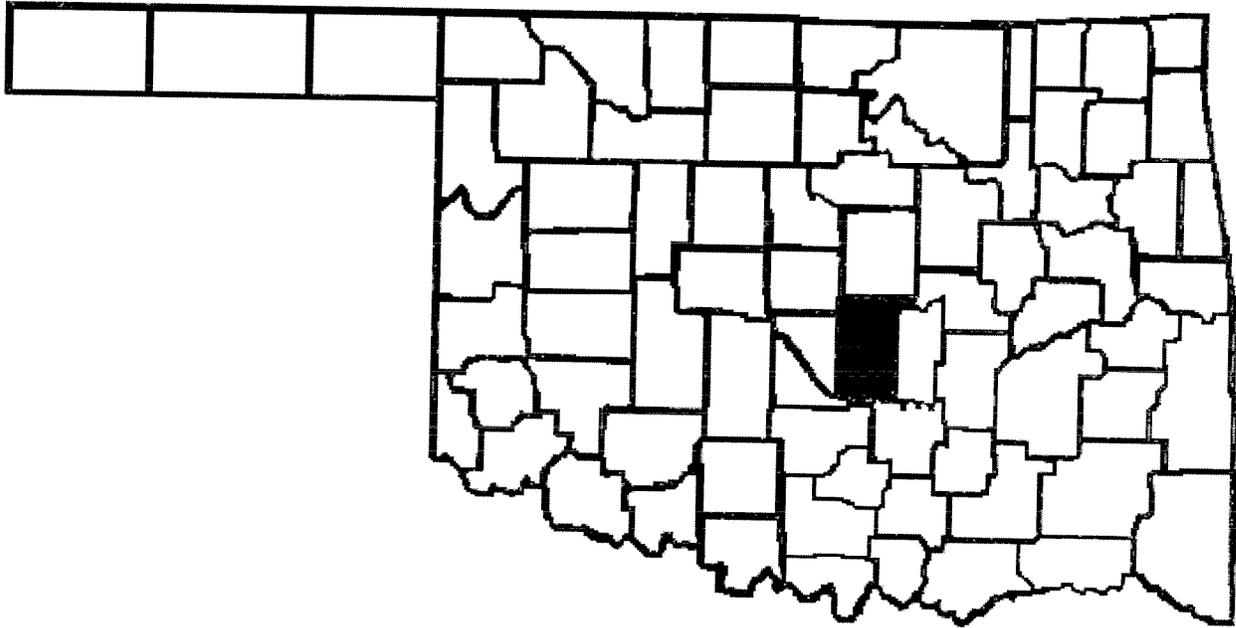
**POTTAWATOMIE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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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 of September 22, 1891, and was designated County "B." Although spelled differently, the County name was changed by vote in 1892 to honor the Potawatomi 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 63 "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 – 67,111
(2004 est.)

Farms – 1,663

Land in Farms – 343,119 Acres

Primary Source: Oklahoma Almanac 2005-2006

See independent auditor's report.

**POTTAWATOMIE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

COUNTY ASSESSOR
Joy Anderson
(D) Shawnee

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
(D) Shawnee

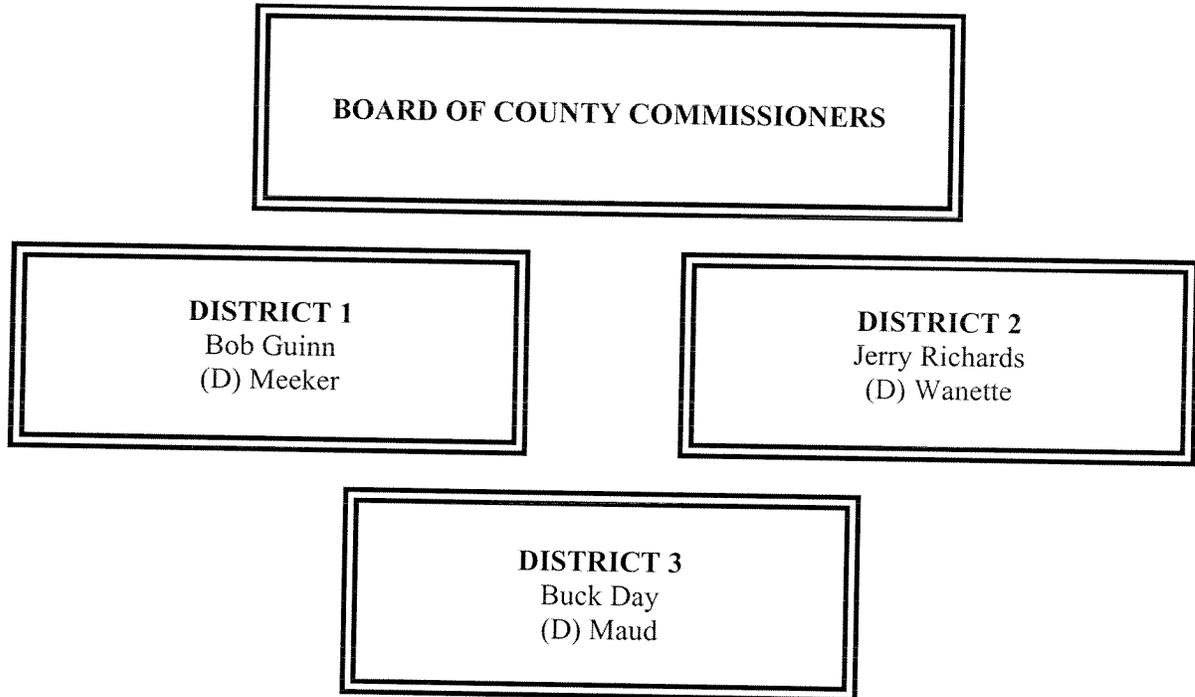
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

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, 2005**



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, 2005**

COUNTY SHERIFF

Kurt Shirey
(D) Tecumseh

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
(D) Tecumseh

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. The State Auditor and Inspector's Office prescribes all the forms used by the County Treasurer, and at least twice a year inspects the County Treasurer's accounts.

See independent auditor's report.

**POTTAWATOMIE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<p>COURT CLERK Cecil Dunlap (12/2004) (D) Shawnee Reta Head (D) Shawnee (12/2004 to Present)</p>

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. Court Clerks use forms and follow procedures prescribed by the Court Administrator's Office, the Oklahoma Supreme Court, and the State Auditor and Inspector.

<p>DISTRICT ATTORNEY Richard Smothermon (D) Shawnee</p>
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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, 2005**

ELECTION BOARD SECRETARY

Diana Knight
(D) Shawnee

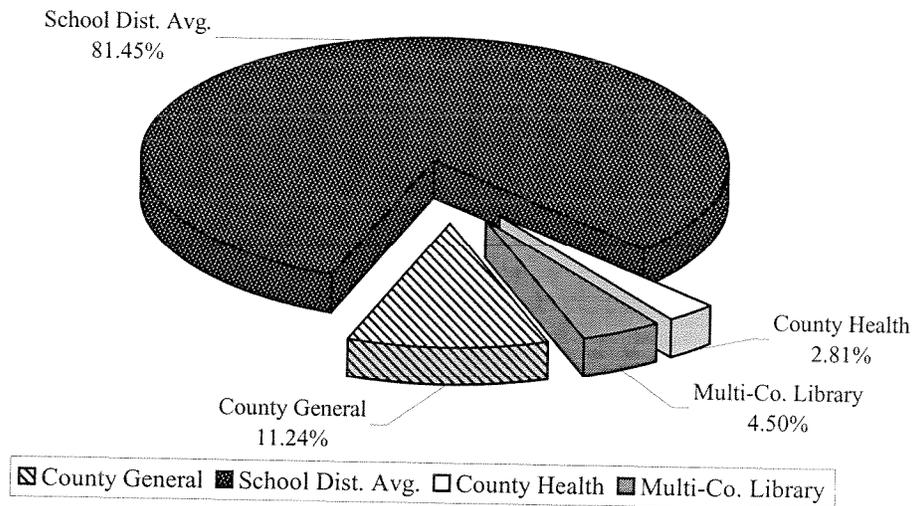
The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within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

See independent auditor's report.

**POTTAWATOMIE COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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								
Co. General				Gen.	Bldg.	Skg.	Career Cntr.	Cntr. Bldg.	Common	Total
Co. General	10.15	McLoud	I-1	35.66	5.09	12.40	10.12	5.06	4.06	72.39
County Health	2.54	Dale	I-2	35.82	5.12	10.73	10.12	5.06	4.06	70.91
Multi-Co. Library	4.06	Bethel	I-3	35.77	5.11	16.83	10.12	5.06	4.06	76.95
		Macomb	I-4	35.94	5.13		10.12	5.06	4.06	60.31
		Earlsboro	I-5	35.88	5.13		10.12	5.06	4.06	60.25
		Tecumseh	I-92	35.71	5.10	13.75	10.12	5.06	4.06	73.80
		Shawnee	I-93	35.31	5.04	19.20	10.12	5.06	4.06	78.79
		Asher	I-112	36.16	5.17	18.87	10.12	5.06	4.06	79.44
		Wanette	I-115	36.17	5.17	12.33	10.12	5.06	4.06	72.91
		Maud	I-117	35.94	5.13	18.21	10.12	5.06	4.06	78.52
		North Rock Creek	C-10	35.20	5.03	10.92	10.12	5.06	4.06	70.39
		Grove	C-27	35.48	5.07	18.80	10.12	5.06	4.06	78.59
		Pleasant Grove	C-29	35.46	5.07	8.58	10.12	5.06	4.06	68.35
		South Rock Creek	C-32	35.77	5.11	9.08	10.12	5.06	4.06	69.20
		Seminole County	JT-4	35.43	5.06	13.59	10.12	5.06	4.06	73.32
		Oklahoma County	JT-7	35.93	5.13	17.34	10.12	5.06	4.06	77.64
		Seminole County	JT-14	39.28	5.61	11.67	10.12	5.06	4.06	75.80
		Cleveland County	JT-70	35.32	5.05	22.17	10.12	5.06	4.06	81.78
		Lincoln County	JT-95	36.28	5.18	15.81	10.12	5.06	4.06	76.51
		Lincoln County	JT-103	36.62	5.23	13.36	10.12	5.06	4.06	74.45

See independent auditor's report.

**POTTAWATOMIE COUNTY, OKLAHOMA
COMPUTATION OF LEGAL DEBT MARGIN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

Total net assessed value as of January 1, 2004		<u>\$ 220,164,083</u>
Debt limit - 5% of total assessed value		11,008,204
Total bonds outstanding	-	
Total judgments outstanding	-	
Less cash in sinking fund	<u>46,730</u>	<u>-</u>
Legal debt margin		<u>\$ 11,008,204</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, 2005
 (UNAUDITED)**

	2005
Estimated population	67,111
Net assessed value as of January 1, 2004	\$ 220,164,083
Gross bonded debt	-
Less available sinking fund cash balance	46,730
Net bonded debt	\$ -
Ratio of net bonded debt to assessed value	0.00%
Net bonded debt per capita	\$ -

See independent auditor's report.

**POTTAWATOMIE COUNTY, OKLAHOMA
ASSESSED VALUE OF PROPERTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

<u>Valuation Date</u>	<u>Personal</u>	<u>Public Service</u>	<u>Real Estate</u>	<u>Homestead Exemption</u>	<u>Net Value</u>	<u>Estimated Fair Market Value</u>
1/1/2004	\$37,210,155	\$31,344,550	\$166,519,341	\$14,909,963	\$220,164,083	\$1,994,561,555

See independent auditor's report.

FINANCIAL SECTION

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, 2005, 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. Oklahoma Statutes, in addition to audit responsibilities, assign other responsibilities to the State Auditor and Inspector's Office. Those responsibilities include providing various information technology (IT) support for county government.

As described in Note 1, this financial statement was prepared using accounting practices prescribed 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, 2005, 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, 2005, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2006, 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. 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. 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 black ink, reading "Jeff A. McMaham". The signature is written in a cursive, flowing style with a large initial "J".

JEFF A. McMAHAN
State Auditor and Inspector

January 3, 2006

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, 2005**

	Beginning Cash Balances July 1, 2004	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2005
Combining Information:				
General Fund	\$ 847,441	\$ 2,983,841	\$ 3,140,371	\$ 690,911
County Highway	2,072,623	3,531,476	3,417,440	2,186,659
Restricted Highway	3,914			3,914
County Health	752,450	617,048	614,774	754,724
Resale Property	355,013	145,142	140,238	359,917
Courthouse Renovation	3,960			3,960
Community Service Grant	2,376	1,200	2,889	687
County Assessor Fees	8,003	13,667	14,264	7,406
County Clerk Lien Fee	21,739	30,872	30,252	22,359
County Treasurer Mortgage Tax	77,821	19,411	54,412	42,820
Juvenile Detention	2,381		2,381	
Child Abuse Prevention	8,861	1,420		10,281
Self-Insurance	1,407			1,407
Sheriff Service Fee	243,404	173,816	173,143	244,077
Sheriff Training	2,563		1,960	603
Sheriff Drug Buy	380			380
Board of Prisoners		5,223	5,223	
Social Services Cash	29,181	556	1,308	28,429
Circuit Engineering Cash	14,864	37,741	52,143	462
Birdie Lane Road Improvement District	2,668	52		2,720
Westgate Road Improvement District	9,768	5,219		14,987
Romburg #13 Road Improvements	54,771	1,071		55,842
Sales Tax Maintenance/Repair/Improvements	2,217,756	3,275,617	3,561,373	1,932,000
Sales Tax Pottawatomie County Fire Department	682,994	405,389	512,343	576,040
Sales Tax Emergency Services	283,420	202,240	65,246	420,414
Sales Tax Economic Development	619,800	123,996	54,808	688,988
Sales Tax OSU Extension Center	343,833	146,680	129,185	361,328
Sales Tax Soil Conservation	38,629	56,683	55,290	40,022
Sales Tax Pottawatomie County Free Fair	135,150	57,929	81,207	111,872
Sales Tax Senior Citizens	9,205	113,180	102,891	19,494
Sales Tax Capital Improvements	1,341,175	352,607	1,013,026	680,756
County Clerk Preservation Fee	140,411	90,199	47,816	182,794
CDBG (93-73) Bathroom	90			90

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, 2005**

continued from previous page

	Beginning Cash Balances July 1, 2004	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2005
Combining Information:				
Community Sentencing	913	1,448	1,227	1,134
Pottawatomie County Drug Court	19,812	32,955	28,070	24,697
Law Enforcement Grant	53			53
County Sinking	46,725	5		46,730
Town of St. Louis		97,215		97,215
Town of Johnston		103,750	103,458	292
CDBG Rural Water #3	33,440	43,459	76,899	
CDBG Brooksville	1,000		1,000	
Pottawatomie County Public Safety	93,024	1,120,604	1,117,058	96,570
Capital Improvements Jail/Highway	23,207	280,151	279,215	24,143
Home Program 2004		5,235	5,235	
CDBG Tribbey		75,000	2,250	72,750
CDBG 59B		142,847		142,847
Local Law Enforcement #LE04-09		5,195	1,800	3,395
Combined Total--All County Funds	<u>\$10,546,225</u>	<u>\$14,300,139</u>	<u>\$14,890,195</u>	<u>\$9,956,169</u>

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, 2005**

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, 2005**

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.

Juvenile Detention – accounts for monies collected; 85% from state and 15% from the county in which the juvenile resides, and disbursed for the general operation of the office.

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.

Board of Prisoners – accounts for the monies received from the State of Oklahoma for the boarding and feeding of the Department of Corrections' prisoners.

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

Circuit Engineering Cash – accounts for monies received from the forfeitures and disbursement of funds by court order and state statutes.

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.

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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.

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.

Sales Tax 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 Registrar of Deeds 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.

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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.

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

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

CDBG Rural Water #3 – accounts for federal funds to be used for construction and maintenance of water lines in Rural Water District #3.

CDBG Brooksville – accounts for federal funds to be used for road improvements in District 2.

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

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.

Home Program 2004 – accounts for federal funds to be used for construction of homes for low-income residents.

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

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

Local Law Enforcement #LE04-09 – accounts for grant monies received and used to purchase equipment as restricted by the grant agreement.

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

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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.

D. Budget

Under current Oklahoma Statutes, the general fund and the 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 by fund, 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

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

- 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

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.

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, 2004, was approximately \$220,164,083.

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 cities and towns and school districts and remits the ad valorem taxes collected to the appropriate taxing units.

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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.

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

Current year tax collections for the year ended June 30, 2005, were approximately 97.05 percent of the tax levy.

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

The County is exposed to the various risks of loss shown in the following table:

Types of Loss	Method of Management	Risk of Loss Retained
General Liability <ul style="list-style-type: none"> • Torts • Errors and Omissions • Law Enforcement Officers Liability • Vehicle 	The County participates in a public entity risk pool: Association of County Commissioners of Oklahoma-Self-Insurance Group. (See 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.
Physical Plant <ul style="list-style-type: none"> • Theft • Damage to Assets • Natural Disasters 		
Worker's Compensation <ul style="list-style-type: none"> • Employees' Injuries 	The County carries commercial insurance.	A judgment could be assessed for claims in excess of coverage.

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Types of Loss	Method of Management	Risk of Loss Retained
Employee		
<ul style="list-style-type: none"> • Medical • Disability • Dental • Life 	The County carries commercial insurance.	None

ACCO-SIG - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating county chooses a \$10,000, \$25,000, or a \$50,000 deductible amount. The County has chosen a \$25,000 deductible for each insured event as stated in the County’s “Certificate of Participation.” The risk pool will pay legitimate claims in excess of the deductible amount for replacement value up to \$100,000 for property, and up to \$500,000 for general liability. The pool has acquired commercial reinsurance in the amount of \$1,000,000 to cover claims that exceed the pool’s risk retention limits. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

Commercial Insurance - The County obtains commercial insurance coverage to pay legitimate worker’s compensation claims and employees’ insurance. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

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. However, starting in January 1997, ODOT began charging a one-time fee of 3% on all pieces of machinery subsequently 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,

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. County employees are required to contribute between 3.5% and 8.5% of earned compensation. The County contributes between 5.0% and 10.0% of earned compensation. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributes 10.0% of earned compensation for elected officials. The County's contributions to the Plan for the years ending June 30, 2005, 2004, and 2003 were \$303,517, \$298,575, and \$296,860, respectively, equal to the required contributions for each year.

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.

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

9. Embezzlement of Funds

During the fiscal year, the District Attorney requested an investigative audit covering the County Clerk's payroll system. All findings were reported to the District Attorney for further consideration. One employee has been terminated and the County has received full restitution. The embezzlement did not and will not affect the balances reported herein.

OTHER SUPPLEMENTARY INFORMATION

POTTAWATOMIE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 811,952	\$ 811,952	\$ 847,441	\$ 35,489
Less: Prior Year Outstanding Warrants	(91,353)	(91,353)	(91,353)	
Less: Prior Year Encumbrances	(284,085)	(284,085)	(161,926)	122,159
Beginning Cash Balances, Budgetary Basis	<u>436,514</u>	<u>436,514</u>	<u>594,162</u>	<u>157,648</u>
Receipts:				
Ad Valorem Taxes	2,031,514	2,031,514	2,214,745	183,231
Charges for Services	274,624	274,624	304,573	29,949
Intergovernmental Revenues	341,068	341,068	393,953	52,885
Miscellaneous Revenues	46,039	46,039	70,570	24,531
Total Receipts, Budgetary Basis	<u>2,693,245</u>	<u>2,693,245</u>	<u>2,983,841</u>	<u>290,596</u>
Expenditures:				
District Attorney	44,972	44,972	44,972	
Total District Attorney	<u>44,972</u>	<u>44,972</u>	<u>44,972</u>	<u>-</u>
County Sheriff	717,000	717,000	716,995	5
Capital Outlay	3,000	3,000	2,995	5
Total County Sheriff	<u>720,000</u>	<u>720,000</u>	<u>719,990</u>	<u>10</u>
County Treasurer	133,478	133,478	133,235	243
Capital Outlay	1,900	1,900	1,800	100
Total County Treasurer	<u>135,378</u>	<u>135,378</u>	<u>135,035</u>	<u>343</u>
Juvenile Detention	68,250	68,250	68,148	102
Total Juvenile Detention	<u>68,250</u>	<u>68,250</u>	<u>68,148</u>	<u>102</u>
County Clerk	263,508	263,508	258,542	4,966
Total County Clerk	<u>263,508</u>	<u>263,508</u>	<u>258,542</u>	<u>4,966</u>
Court Clerk	276,000	276,000	275,790	210
Total Court Clerk	<u>276,000</u>	<u>276,000</u>	<u>275,790</u>	<u>210</u>
County Assessor	190,500	190,500	188,073	2,427
Capital Outlay	2,000	2,000	950	1,050
Total County Assessor	<u>192,500</u>	<u>192,500</u>	<u>189,023</u>	<u>3,477</u>
Revaluation of Real Property	198,000	198,000	197,942	58
Total Revaluation of Real Property	<u>198,000</u>	<u>198,000</u>	<u>197,942</u>	<u>58</u>

continued on next page

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

POTTAWATOMIE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

continued from previous page

	Original Budget	Final Budget	Actual	Variance
General Government	585,727	585,727	557,995	27,732
Capital Outlay	21,000	21,000	17,949	3,051
Total General Government	<u>606,727</u>	<u>606,727</u>	<u>575,944</u>	<u>30,783</u>
Excise-Equalization Board	3,800	3,800	2,593	1,207
Total Excise-Equalization Board	<u>3,800</u>	<u>3,800</u>	<u>2,593</u>	<u>1,207</u>
County Election Board	118,701	118,701	118,529	172
Capital Outlay	5,732	5,732	5,732	
Total County Election Board	<u>124,433</u>	<u>124,433</u>	<u>124,261</u>	<u>172</u>
Soil Conservation	5,000	5,000	4,999	1
Total Soil Conservation	<u>5,000</u>	<u>5,000</u>	<u>4,999</u>	<u>1</u>
County School Treasurer	35,000	35,000	33,866	1,134
Total County School Treasurer	<u>35,000</u>	<u>35,000</u>	<u>33,866</u>	<u>1,134</u>
Community Sentencing	13,262	13,262	12,074	1,188
Total Community Sentencing	<u>13,262</u>	<u>13,262</u>	<u>12,074</u>	<u>1,188</u>
Jail Trust	400,000	400,000	400,000	
Total Jail Trust	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>-</u>
County Audit Budget Account	42,929	42,929	22,017	20,912
Total County Audit Budget Account	<u>42,929</u>	<u>42,929</u>	<u>22,017</u>	<u>20,912</u>
Provision for Interest on Warrants			8,878	(8,878)
Total Expenditures, Budgetary Basis	<u>3,129,759</u>	<u>3,129,759</u>	<u>3,074,074</u>	<u>55,685</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	503,929	<u>\$ 503,929</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			92,641	
Add: Current Year Outstanding Warrants			94,341	
Ending Cash Balance			<u>\$ 690,911</u>	

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

**POTTAWATOMIE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY HEALTH DEPARTMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	County Health Department Fund			
	Original	Final	Actual	Variance
	Budget	Budget		
Beginning Cash Balances	\$ 752,450	\$ 752,450	\$ 752,450	\$ -
Less: Prior Year Outstanding Warrants	(51,590)	(51,590)	(51,590)	
Less: Prior Year Encumbrances	(62,347)	(62,347)	(58,251)	4,096
Beginning Cash Balances, Budgetary Basis	<u>638,513</u>	<u>638,513</u>	<u>642,609</u>	<u>4,096</u>
Receipts:				
Ad Valorem Taxes	508,379	508,379	551,733	43,354
Miscellaneous Revenues		47,540	65,315	17,775
Total Receipts, Budgetary Basis	<u>508,379</u>	<u>555,919</u>	<u>617,048</u>	<u>61,129</u>
Expenditures:				
Health and Welfare	775,000	897,541	558,150	339,391
Capital Outlay	371,892	296,891	3,800	293,091
Total Expenditures, Budgetary Basis	<u>1,146,892</u>	<u>1,194,432</u>	<u>561,950</u>	<u>632,482</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	697,707	<u>\$ 697,707</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			50,919	
Add: Current Year Outstanding Warrants			6,098	
Ending Cash Balance			<u>\$ 754,724</u>	

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

**POTTAWATOMIE COUNTY, OKLAHOMA
DETAILED SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES—SINKING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Beginning Cash Balance	<u>\$ 46,725</u>
Receipts:	<u>5</u>
Total Receipts	<u>5</u>
Disbursements:	
Total Disbursements	<u>-</u>
Ending Cash Balance	<u>\$ 46,730</u>

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

**POTTAWATOMIE COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. Budgetary Schedules

The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis, for the General Fund and the County Health Department Fund present comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Receipts, Disbursements, and Changes in Cash Balances with Combining Information because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in these funds. At the end of the year, unencumbered appropriations lapse.

2. 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.

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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

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, 2005, 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 3, 2006. 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. Also, our report describes certain responsibilities of the State Auditor and Inspector's Office other than audit responsibilities. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Pottawatomie County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying schedule of findings and responses as items 2005-1, 2005-2, and 2005-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2005-1 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*. However, we noted a certain matter that we reported to the management of Pottawatomie County, which is included in Section 2 of the schedule of findings and responses contained in this report.

This report is intended solely for the information and use of the management of the 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., section 24A.1 et seq.), and shall be open to any person for inspection and copying.



JEFF A. McMAHAN
State Auditor and Inspector

January 3, 2006

**POTTAWATOMIE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

SECTION 1—Findings related to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Finding 2005-1 - Segregation of Duties (Repeat Finding)

Criteria: Segregation of duties over asset custody, transaction authorization, bookkeeping and reconciliation is an important element of effective internal control over government assets and resources.

Condition: The limited number of office personnel within several County offices prevents a proper segregation of accounting functions, which is necessary to assure adequate internal control structure.

Recommendation: We recommend management be aware of this condition 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 knowledge of office operations and a periodic review of operations.

Views of responsible officials and planned corrective actions: We concur with the auditor's findings. Management does have knowledge of office operations and will perform a periodic review of these operations.

Finding 2005-2 - Written Disaster Recovery Plan (Repeat Finding)

Criteria: According to the standards of the Information Systems Audit and Control Association's (COBIT) Delivery and Support Control Objectives (DS4), management should have procedures in place to ensure continuous computer services. Plans should be developed and tested to minimize business disruption during times of disaster or hardware failure. The Disaster Recovery Plan should include all of the following:

- Guidelines on how to use the Recovery Plan,
- Emergency procedures to ensure the safety of all affected staff members,
- Roles and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel,
- Listing of systems requiring alternatives (hardware, peripherals, software),
- Listing of highest to lowest priority applications, required recovery times and expected performance norms,
- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step-by-step execution,
- Specific equipment and supply needs are identified such as high speed printers, signatures, forms, communications equipment, telephones, etc. and a source and alternative source defined,
- Training and/or awareness of individual and group roles in continuity plan,
- Listing of contracted service providers,

**POTTAWATOMIE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

- Logistical information on location of key resources, including back-up site for recovery operating system, applications, data files, operating manuals and program/system/user documentation,
- Current names, addresses, telephone/pager numbers of key personnel,
- Business resumption alternatives for all users for establishing alternative work locations once IT resources are available.

Condition: The County does not have a written Disaster Recovery Plan.

Recommendation: We recommend the County establish a Disaster Recovery Plan to ensure the safekeeping and integrity of the County's financial and non-financial data.

Views of responsible officials and planned corrective actions: Each office will work to implement a formal Disaster Recovery Plan.

Finding 2005-3 - Written Policies and Procedures (Repeat Finding)

Criteria: According to the standards of the Information Systems Audit and Control Association's (COBIT Delivery and Support 7), management should educate and train users to ensure that users are making effective use of technology and are aware of their risks and responsibilities.

Condition: The County does not have written policies and procedures addressing information security or provide adequate awareness training.

Recommendation: We recommend the County establish Information Security policies and procedures. A security awareness training program should be established and all employees using computers required to participate.

Views of responsible officials and planned corrective actions: The County officials will work to prepare and implement policies and procedures for the information systems.

SECTION 2—This section contains certain matters not required to be reported in accordance with *Government Auditing Standards*. However, we believe these matters are significant enough to bring to management's attention. We recommend that management consider these matters and take appropriate corrective action.

Finding 2005-4 - General Fixed Assets Inventory (Repeat Finding)

Criteria: Title 19 O.S. 2001, § 178.1 states, "The board of county commissioners in each county of this state shall take, or cause to be taken, an inventory of all working tools, apparatus, machinery and equipment belonging to the county or leased or otherwise let to it or to any department thereof, other than that which is affixed to and made a part of lands and buildings, the cost of which as to each complete working unit thereof is more than Two Hundred Fifty Dollars (\$250.00), and therefore maintain or cause

**POTTAWATOMIE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

to be maintained a continuous inventory record thereof and of like tools, apparatus, machinery and equipment purchased, leased, or otherwise coming into custody of the county or of any office, board, department, commission or any or either thereof, and the disposition thereof whether sold, exchanged, leased, or let where authorized by statute, junked, strayed or stolen, and biennially thereafter....”

Condition: All offices, except the County Treasurer and the County Assessor, do not perform a biennial verification of the fixed assets inventory.

Recommendation: We recommend that the Board of County Commissioners cause a biennial inventory to be taken of all working tools, apparatus, machinery, and equipment belonging to the County. We also recommend that these inventories be documented on form 3512.

Views of responsible officials and planned corrective actions: All officers will work together to compile a complete listing of County inventory. We will also try to conduct a physical inventory of all items once every two years.