

STEPHENS COUNTY

FOR THE FISCAL YEAR ENDED
JUNE 30, 2008

COUNTY AUDIT



Oklahoma State Auditor
& Inspector

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

This publication is printed and issued by the State Auditor and Inspector as authorized by 19 O.S. § 171. Pursuant to 74 O.S. § 3105.B, thirteen (13) copies have been prepared and distributed at a cost of \$42.76. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



2300 N. Lincoln Boulevard State Capitol, Room 100 Oklahoma City, OK 73105-4801 Phone (405) 521-3495 Fax (405) 521-3426 www.sai.ok.gov

September 28, 2010

TO THE CITIZENS OF
STEPHENS COUNTY, OKLAHOMA

Transmitted herewith is the audit of Stephens 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.

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 blue ink that reads "Steve Burrage".

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

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

TABLE OF CONTENTS

INTRODUCTORY SECTION (Unaudited)

Report to the Citizens of Stephens County	iii
County Officials and Responsibilities.....	iv
Ad Valorem Tax Distribution	ix
Computation of Legal Debt Margin.....	x
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	xi
Assessed Value of Property	xii

FINANCIAL SECTION

Report of State Auditor and Inspector	1
Basic Financial Statement:	
Combined Statement of Receipts, Disbursements, and Changes in Cash Balances (with Combining Information)	3
Notes to the Financial Statement.....	4

OTHER SUPPLEMENTARY INFORMATION

Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—General Fund.....	13
Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—County Health Department Fund	15
Note to Other Supplementary Information.....	16
Schedule of Expenditures of Federal Awards	17
Note to the Schedule of Expenditures of Federal Awards	18

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

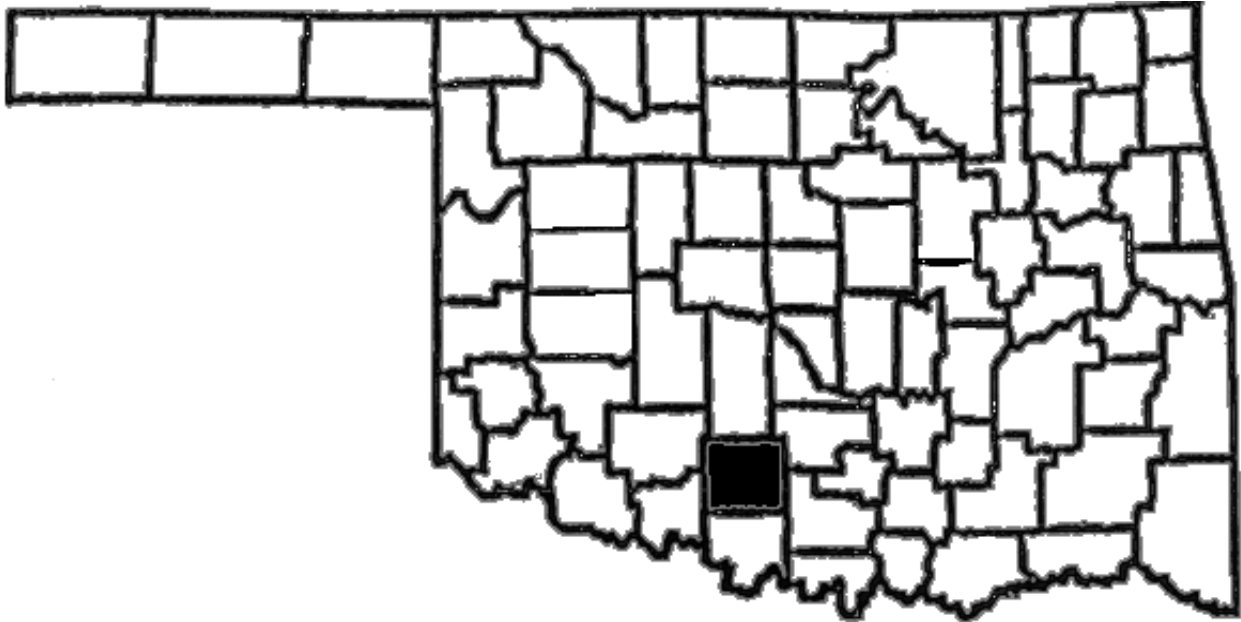
INTERNAL CONTROL AND COMPLIANCE SECTION

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..... 19

Report on Compliance With Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance With OMB Circular A-133 21

Schedule of Findings and Questioned Costs 23

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



Created at statehood from portions of Comanche County, Oklahoma Territory, and the Chickasaw Nation, Stephens County was named for John H. Stephens, a member of Congress from Texas and staunch advocate of Oklahoma statehood. The first permanent settler, Silas Fitzpatrick, sold his store to William Duncan, for whom the county seat was named in 1892. Duncan Municipal Airport, OKT Railroad, and Oklahoma Transportation-Jefferson Bus Lines provide additional transportation links.

The economy is based on agriculture (wheat, peanuts, cotton, cattle) and petroleum. Duncan, Marlow, and Comanche are the principal municipalities and each offers a wide range of goods and services. Halliburton Oil Field Services began in Duncan, and remains a major employer in the area.

Duncan maintains 144 acres of parks and playgrounds and two public swimming pools. There are golf courses in Duncan, Marlow, and Comanche. Boating, fishing, camping facilities, and 4,000 acres of recreational lands are found at Clear Creek, Duncan, Humphreys, and Fuqua lakes.

County Seat – Duncan

Area – 891.12 Square Miles

County Population – 42,946
(2005 est.)

Farms – 1,359

Land in Farms – 419,923 Acres

Primary Source: Oklahoma Almanac 2007-2008

See independent auditor's report.

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

COUNTY ASSESSOR
Cathy Hokit

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
Jo Johnson

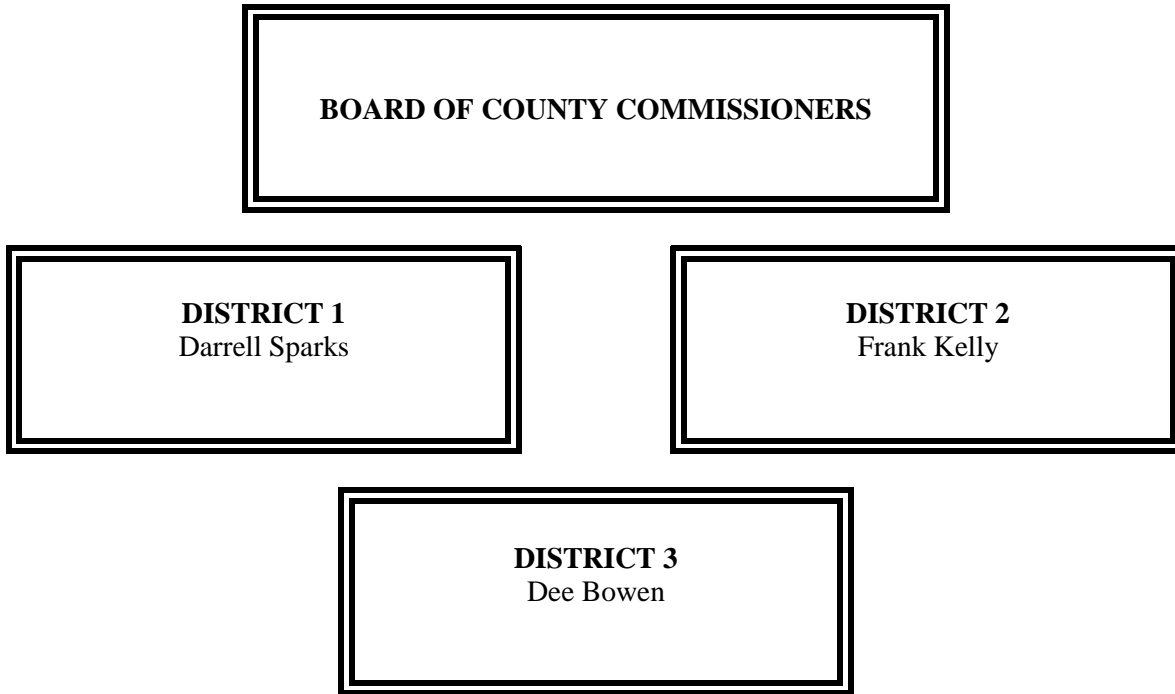
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

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.

**STEPHENS 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.

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

COUNTY SHERIFF
Jimmie Bruner

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
Janice Graham

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.

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

COURT CLERK
Connie Elam

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
Bret Burns

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.

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

ELECTION BOARD SECRETARY
Peggy Winton

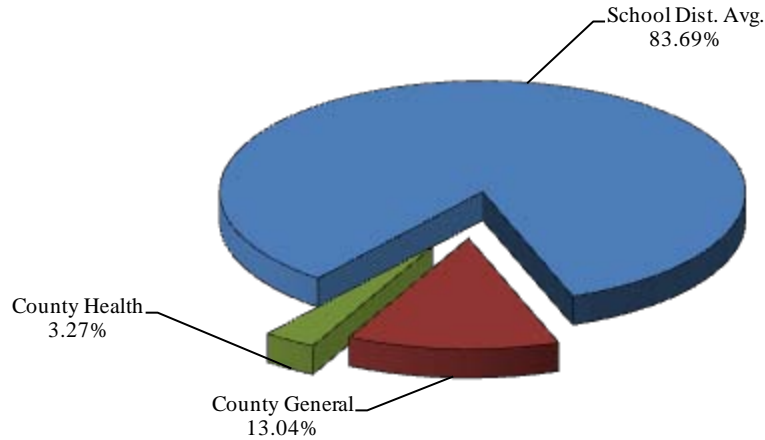
The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within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

**STEPHENS 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.	Career Tech	Common	Total
County General	10.22								
County Health	2.56	Duncan	I-1	35.72	5.10	21.08	12.26	4.09	78.25
		Comanche	JI-2	35.66	5.09	18.88	12.26	4.09	75.98
		Marlow	JI-3	35.77	5.11		12.26	4.09	57.23
		Velma-Alma	JI-15	35.69	5.10	7.41	12.26	4.09	64.55
		Empire	I-21	36.48	5.21	12.60	12.26	4.09	70.64
		Central High	JI-34	36.08	5.15	19.52	12.26	4.09	77.10
		Bray-Doyle	JI-42	35.96	5.14	8.23	12.26	4.09	65.68
		Grandview	JD-82	36.22	5.17		12.26	4.09	57.74
		Sterling	NO.3	36.32	5.19	6.55	14.42	4.09	66.57
		Fox	I-74	37.00	5.29	2.3	10.42	4.09	59.10
		Walters	I-1	36.55	5.22		12.26	4.09	58.12
		Temple	I-101	35.00	5.00	12.75	12.26	4.09	69.10
		Elmore City	I-72	35.18	5.03	15.83	11.06	4.09	71.19
		Waurika	I-23	35.00	5.00		12.26	4.09	56.35
		Ringling	I-14	36.42	5.20		10.42	4.09	56.13

See independent auditor's report.

**STEPHENS 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>\$ 228,525,418</u>
Debt limit - 5% of total assessed value		11,426,271
Total bonds outstanding	-	
Total judgments outstanding	-	
Less cash in sinking fund	-	<u>-</u>
Legal debt margin		<u>\$ 11,426,271</u>

See independent auditor's report.

**STEPHENS 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)**

	2008
Estimated population	42,946
Net assessed value as of January 1, 2007	\$ 228,525,418
Gross bonded debt	-
Less available sinking fund cash balance	-
Net bonded debt	\$ -
Ratio of net bonded debt to assessed value	0.00%
Net bonded debt per capita	\$ -

See independent auditor's report.

**STEPHENS 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	\$65,981,368	\$23,711,147	\$151,527,592	\$12,694,689	\$228,525,418	\$2,081,122,878

See independent auditor's report.

FINANCIAL SECTION

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



2300 N. Lincoln Boulevard State Capitol, Room 100 Oklahoma City, OK 73105-4801 Phone (405) 521-3495 Fax (405) 521-3426 www.sai.ok.gov

Independent Auditor's Report

TO THE OFFICERS OF STEPHENS COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Stephens 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 Stephens 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 Stephens 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 Stephens 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 September 13, 2010, on our consideration of Stephens 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 was unable to provide 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. The other supplementary information, as listed in the table of contents, which includes the combining information referred to above, is presented for purposes of additional analysis, and is not a required part of the basic financial statement. The other 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.



STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

September 13, 2010

Basic Financial Statement

**STEPHENS 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:				
County General Fund	\$ 2,292,357	\$ 3,815,931	\$ 2,694,634	\$ 3,413,654
County Highway Cash	9,236,583	7,764,580	5,664,271	11,336,892
County Health Department	415,596	614,485	667,449	362,632
Resale Property	262,832	172,876	167,485	268,223
Treasurer Mortgage Tax Certification Fee	33,005	14,745	11,293	36,457
County Clerk Lien Fee	88,110	35,148	16,950	106,308
County Clerk Records Management Preservation Fee	275,128	84,285	206,412	153,001
Assessor Revolving Fee	56,240	15,791	22,559	49,472
Assessor Visual Inspection	8,610	306		8,916
Excess Resale	11,039	70,298	6,299	75,038
Sheriff Service Fee	263,047	275,612	139,927	398,732
Sheriff Housing	325,201	631,392	478,472	478,121
Sheriff Commissary	14,909	34,063	32,138	16,834
Sheriff VOCA	1,140	40,086	34,735	6,491
Community Service Sentencing Program	2,634			2,634
DARE	8			8
Free Fair	64,838	149,744	156,541	58,041
Civil Defense	21,781	25,990	19,262	28,509
Courthouse Building	5,181			5,181
REAP Grant	6,556		6,554	2
Community Development Block Grant	22,512	75,321	97,833	
Government Building Authority Jail Operations	390,960	1,581,230	1,353,145	619,045
Government Building Authority Facility Operations	112,687	367,083	326,097	153,673
Government Building Authority Jail Sales Tax	2,716,524	110,928	36,706	2,790,746
Government Building Authority Facility Sales Tax	2,158,386	1,029,252	924,534	2,263,104
Combined Total--All County Funds	\$ 18,785,864	\$ 16,909,146	\$ 13,063,296	\$ 22,631,714

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

**STEPHENS 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 Stephens County, Oklahoma. The financial statement referred to includes only the primary government of Stephens County, Oklahoma, and does not include financial information for any of the primary government's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the primary government. 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:

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

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

County Health Department – 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.

Treasurer Mortgage Tax Certification Fee - accounts for the collection of fees by the Treasurer for mortgage tax certificates and the disbursement of the funds as restricted by statute.

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

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

County Clerk Records Management Preservation Fee - accounts for fees collected for instruments filed in the Registrar of Deeds as restricted by statute for preservation of records.

Assessor Revolving Fee - accounts for the collection of fees for copies restricted by state statute.

Assessor Visual Inspection - accounts for the collection and disbursement of monies by the Assessor as restricted by state statute for the visual inspection program.

Excess Resale - accounts for the amount collected on sale of property in excess of interest, penalty, and tax dues.

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

Sheriff Housing - accounts for the collection of monies from the Oklahoma Department of Corrections and disbursements are for the purpose of maintaining the jail.

Sheriff Commissary – accounts for the collection of the sale of items to inmates and disbursements to purchase commissary goods from the vendor. Excess funds are used for maintenance and operations of the Sheriff's department.

Sheriff VOCA – accounts for grant monies received to pay salaries of victim's advocate for the Sheriff's department.

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

DARE – accounts for state funds disbursed for the purpose of drug education and drug awareness.

Free Fair – accounts for monies received from rentals and used for the operation of the fairgrounds.

Civil Defense – accounts for the receipt and disbursement of funds from state and local government for emergency management director's salary.

Courthouse Building – accounts for monies received for courthouse improvements.

REAP Grant – accounts for grant monies received from the State of Oklahoma for the conservation district and disbursed for equipment.

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

Community Development Block Grant – accounts for a grant received for handicap accessibility and tripping hazards at the courthouse and for parking lot repairs at the fairgrounds.

Government Building Authority Jail Operations – accounts for the funds collected from a county sales tax to be used for the maintenance and operation of the Stephens County Jail.

Government Building Authority Facility Operations – accounts for the funds collected from a county sales tax to be used for the maintenance and operation of the Stephens County Fairgrounds and Buildings.

Government Building Authority Jail Sales Tax – accounts for the sales tax funds used to retire debt incurred when the Authority built the Stephens County Jail.

Government Building Authority Facility Sales Tax – accounts for the sales tax funds used to retire debt incurred when the Authority built the Stephens County Fairgrounds Buildings.

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

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, 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 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.

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

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

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

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

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

Stephens County (Excluding Jailers)		Stephens County Sheriff Department Jailers Only	
Years of Service	Vacation Leave	Years of Service	Vacation Leave
1-5 Years	10 days	1-5 Years	80 hours
5-15 Years	15 days	5-15 Years	120 hours
15-20 Years	18 days	15-20 Years	144 hours
20-25 Years	20 days	20-25 Years	160 hours
Over 25 Years	25 days	Over 25 Years	200 hours

Vacation benefits are earned by the employee during the year and may not be accumulated. Vacation leave is accrued monthly. Upon separating an employee will be paid for the balance of accrued annual leave.

Sick leave benefits are accrued at the rate of 1 day for each full month of service and 8 hours for Stephens County Sheriff Department Jailers. 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 \$228,525,418.

Per Article 10, § 8A, with the repeal of personal property tax, the millages with the adjustment factor are 10.22 mills (the legal maximum) for general fund operations and 2.56 mills for county health department. 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.

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 97.63 percent of the tax levy.

**STEPHENS 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

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 		

ACCO-SIG – The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating member chooses a deductible amount (\$10,000, \$25,000, or \$50,000). 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 County's deductible amount. The pool has acquired specific excess insurance with retention limits of \$250,000 for property claims and \$500,000 for general liability claims. The pool has acquired reinsurance in the amount of \$2,000,000 for general liability and \$50,000,000 per occurrence for property to cover claims that exceed the pool's retention limits. If claims exceed pool assets, the County could be liable for its share of the pool's deficit. 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.

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

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.

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 \$603,808, \$502,272, and \$441,934, respectively, equal to the required contributions for each year.

Members have the option to elect 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.

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

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. Sales Tax

On August 22, 2000, Stephens County Citizens voted a county sales tax of one-half of one percent (1/2%) for acquiring, constructing, equipping, repairing, renovating, operating, and maintaining county jail facilities and parking facilities for Stephens County, Oklahoma. Two-tenths of one percent (2/10%) expired October 1, 2005, with the remaining three-tenths of one percent (3/10%) for an unlimited duration or until repealed by a majority of the electors of Stephens County. The sales tax is deposited into two funds known as the Governmental Building Authority – Jail Sales Tax and Governmental Building Authority – Jail Operations. All indebtedness of the Governmental Building Authority has been retired.

On November 7, 2000, Stephens County Citizens voted a county sales tax of one-fourth of one percent (1/4%) for acquiring, constructing, equipping, repairing, renovating, operating, and maintaining county fair facilities for Stephens County, Oklahoma. The sales tax is deposited into two funds known as the Governmental Building Authority – Fair Sales Tax and Governmental Building Authority – Fair Operations. All indebtedness of the Governmental Building Authority has been retired. The said sales tax shall expire December 31, 2020, at which time all indebtedness of the Governmental Building Authority – Fair Operations will be retired.

10. Restatement of Prior Year Cash Balance

Due to the reclassification of funds for the fiscal year ended June 30, 2007, the ending balance as reported is different than the June 30, 2008, beginning balance. The difference is due to moving the Stephens County Government Building Authority funds from non-county funds to county funds. Those funds include Governmental Building Authority Jail Operations of \$390,960, Governmental Building Authority Facility Operations of \$2,716,524, and Governmental Building Authority Facility Sales Tax of \$2,158,386. This change resulted in an increase in the beginning cash balance of \$5,378,557.

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

Prior Year Ending Balance as Reported	\$13,407,307
Non-county funds reclassified as county funds	<u>5,378,557</u>
Prior Year Ending Balance as Restated	<u>\$18,785,864</u>

OTHER SUPPLEMENTARY INFORMATION

STEPHENS 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, 2008

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 2,292,357	\$ 2,292,357	\$ 2,292,357	\$ -
Less: Prior Year Outstanding Warrants	(6,147)	(6,147)	(6,147)	
Less: Prior Year Encumbrances	(48,271)	(48,271)	(40,754)	7,517
Beginning Cash Balances, Budgetary Basis	<u>2,237,939</u>	<u>2,237,939</u>	<u>2,245,456</u>	<u>7,517</u>
Receipts:				
Ad Valorem Taxes	2,123,209	2,123,209	2,321,525	198,316
Charges for Services	301,029	301,029	359,150	58,121
Intergovernmental Revenues	378,594	379,348	412,986	33,638
Miscellaneous Revenues	542,070	542,070	722,270	180,200
Total Receipts, Budgetary Basis	<u>3,344,902</u>	<u>3,345,656</u>	<u>3,815,931</u>	<u>470,275</u>
Expenditures:				
District Attorney	4,000	5,248	3,385	1,863
County Sheriff	449,781	449,781	446,784	2,997
County Treasurer	173,222	173,222	173,121	101
County Commissioners	3,000	3,000	2,806	194
OSU Extension	84,587	84,587	83,757	830
County Clerk	324,244	324,244	314,017	10,227
Court Clerk	197,964	197,964	196,248	1,716
County Assessor	168,552	168,552	167,545	1,007
Revaluation of Real Property	346,960	303,960	278,856	25,104
General Government	3,666,316	3,699,440	1,167,410	2,532,030
Excise-Equalization Board	7,002	7,002	6,358	644
County Election Board	82,817	83,447	76,126	7,321

continued on next page

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

STEPHENS 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, 2008

continued from previous page

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Charity	30,141	40,141	31,346	8,795
Wildlife Trapper	2,400	2,400	2,400	-
District Court	6,500	5,252	5,117	135
Audit Budget	23,355	23,355	23,355	-
Free Fair	12,000	12,000	9,187	2,813
Total Expenditures, Budgetary Basis	<u>5,582,841</u>	<u>5,583,595</u>	<u>2,987,818</u>	<u>2,595,777</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	3,073,569	<u>\$ 3,073,569</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			137,305	
Add: Current Year Outstanding Warrants			202,780	
Ending Cash Balance			<u>\$ 3,413,654</u>	

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

STEPHENS 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, 2008

	County Health Department Fund			
	Original	Final	Actual	Variance
	Budget	Budget		
Beginning Cash Balances	\$ 415,596	\$ 415,596	\$ 415,596	\$ -
Less: Prior Year Outstanding Warrants	(124,225)	(124,225)	(124,225)	
Less: Prior Year Encumbrances	(13,039)	(13,039)	(3,824)	9,215
Beginning Cash Balances, Budgetary Basis	<u>278,332</u>	<u>278,332</u>	<u>287,547</u>	<u>9,215</u>
Receipts:				
Ad Valorem Taxes	531,841	531,841	581,516	49,675
Charges for Services		17,449	17,449	
Intergovernmental Revenues			1,009	1,009
Miscellaneous Revenues			14,511	14,511
Total Receipts, Budgetary Basis	<u>531,841</u>	<u>549,290</u>	<u>614,485</u>	<u>65,195</u>
Expenditures:				
Health and Welfare	810,173	827,622	555,725	271,897
Total Expenditures, Budgetary Basis	<u>810,173</u>	<u>827,622</u>	<u>555,725</u>	<u>271,897</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	346,307	<u>\$ 346,307</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			15,255	
Add: Current Year Outstanding Warrants			1,070	
Ending Cash Balance			<u>\$ 362,632</u>	

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

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

Budgetary Schedule

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.

See independent auditor's report.

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

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed through Oklahoma Department of Commerce:			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	11253	\$ 75,321
Total U.S. Department of Housing and Urban Development			<u>75,321</u>
<u>U.S. DEPARTMENT OF INTERIOR</u>			
Direct Grant:			
Payment in Lieu of Taxes	15.226	N/A	8,672
Total U.S. Department of Interior			<u>8,672</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grant:			
Federal Equitable Sharing - Sheriff	16.000	N/A	1,219
Passed through District Attorneys Council:			
Crime Victim Assistance	16.575	0507-1402	23,304
Total U.S. Department of Justice			<u>24,523</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed through State Department of Emergency Management:			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	N/A	2,144
Total U.S. Department of Transportation			<u>2,144</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed through Oklahoma Department of Emergency Management:			
Disaster Grants - Public Assistance	97.036	PA 1678	74,420
Disaster Grants - Public Assistance	97.036	PA 1712	180,687
Disaster Grants - Public Assistance	97.036	PA 1718	201,797
Disaster Grants - Public Assistance	97.036	PA 1723	45,292
Total CFDA #97.036			<u>502,196</u>
Emergency Management Performance Grants	97.042	N/A	13,800
Passed through State Office of Homeland Security:			
Homeland Security Grant Program	97.067	75.053	25,794
Total U.S. Department of Homeland Security			<u>541,790</u>
Total Expenditures of Federal Awards			<u>\$ 652,450</u>

The accompanying notes are an integral part of this schedule.
See independent auditor's report.

**STEPHENS 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 Stephens County and is presented on the *cash basis of accounting*. The amount reported for Payment in Lieu of Taxes is the amount received during fiscal year 2007-2008. The amount reported for FEMA Public Assistance is an estimate based on actual federal disaster and administration funds received during the fiscal year. 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

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



2300 N. Lincoln Boulevard State Capitol, Room 100 Oklahoma City, OK 73105-4801 Phone (405) 521-3495 Fax (405) 521-3426 www.sai.ok.gov

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
STEPHENS COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Stephens County, Oklahoma, as of and for the year ended June 30, 2008, which comprises Stephens County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated September 13, 2010. 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 Stephens 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency 2008-4 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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, we do not consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stephens 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 a certain matter that we reported to the management of Stephens County, which is included in Section 4 of the schedule of findings and questioned costs contained in this report.

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

This report is intended solely for the information and use of Stephens 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.



STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

September 13, 2010

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



2300 N. Lincoln Boulevard State Capitol, Room 100 Oklahoma City, OK 73105-4801 Phone (405) 521-3495 Fax (405) 521-3426 www.sai.ok.gov

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

TO THE OFFICERS OF
STEPHENS COUNTY, OKLAHOMA

Compliance

We were engaged to audit the compliance of Stephens 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 are applicable to each of its major federal programs for the year ended June 30, 2008. Stephens County's major federal programs are 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 each of its major federal programs is the responsibility of Stephens County's management.

As described in item 2008-2, in the accompanying schedule of findings and questioned costs, management was unable to provide sufficient documentation to support the compliance of Stephens County with the Disaster Grants – Public Assistance (97.036) regarding their compliance with the OMB Circular A-133's Matrix of Compliance Requirements, nor were we able to satisfy ourselves as to Stephens County's compliance with those requirements by other auditing procedures.

Because of the effects of such noncompliance, with the requirements of the Disaster Grants – Public Assistance (97.036) regarding their compliance with the OMB Circular A-133's Matrix of Compliance Requirements, we were unable to apply other auditing procedures regarding the accuracy of its major federal program for the year ending June 30, 2008. The scope of our work was not sufficient to express, and we do not express, an opinion on Stephens County's compliance with the requirements described in *OMB Circular A-133 Compliance Supplement* that are applicable to its major federal program.

Internal Control Over Compliance

The management of Stephens 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 Stephens 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 Stephens 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 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 2008-2 and 2008-3 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. We consider the significant deficiencies in internal control over compliance described as items 2008-2 and 2008-3 in the accompanying schedule of findings and questioned costs to be material weakness.

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

This report is intended solely for the information and use of the management of Stephens 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.



STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

September 13, 2010

**STEPHENS 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?..... No
- 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 weakness(es)? None Reported

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

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

<u>CFDA Number(s)</u> 97.036	<u>Name of Federal Program or Cluster</u> Disaster Grants - Public Assistance
---------------------------------	--

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

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

**STEPHENS 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 2008-4—Financial Statement Disclosures

Criteria: The County's management is responsible for establishing internal control procedures to prevent or detect misstatements in a timely manner. This includes preparation of the financial statements and accompanying notes to the financial statements in accordance with applicable accounting principles. Statement on Auditing Standards (SAS) No. 112 indicates that the County must have adequate expertise to apply accounting principles to the financial statements or to review financial statements prepared on their behalf by others to ensure they are prepared in accordance with these principles. Professional audit standards indicate that the external financial statement auditor cannot perform any part of management's control activities or be a component of the internal controls over financial reporting as this would impair their independence.

Condition: Internal controls have not been developed to ensure all required disclosures are presented with the financial statement reported as an Other Comprehensive Basis of Accounting (OCBOA) statement as required by SAS 62 and Interpretation 14.

Effect: The potential exists for misstatements to go undetected, specifically for the completeness of required financial statement disclosures.

Recommendation: OSAI recommends the County implement a review process for the financial statements and accompanying notes. The County may consider one or more of the following to ensure proper internal controls:

- Using a checklist or financial statement guide to facilitate the review process.
- Having at least one staff member trained in financial statement preparation and having sufficient skills necessary to prepare a complete set of year-end financial statements .

Views of responsible officials and planned corrective actions: Stephens County plans to hire a CPA to prepare the required financial statements to be in compliance with SAS No. 112. Upon notification and direction from the SA&I, steps will be taken to begin this process.

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

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

Finding 2008-2 – Federal Awards – Schedule of Expenditures of Federal Awards

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
FEDERAL AWARD YEAR: 2008
CONTROL CATEGORY: All
QUESTIONED COSTS: \$343,575

Criteria: OMB Circular A-133§__.300 states that the auditee shall:

Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they are received. 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.

FEMA Public Assistance Guide; Chapter 5, page 137, Project Management, 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....This information should include the completed PW; completed Special Considerations Questions form; estimated and actual costs; force account labor; force account equipment, materials, and purchases; photographs of damage, work underway, and work completed; insurance information; environmental and/or historic alternatives and hazard mitigation opportunities considered; environmental review documents; receipt and disbursement documents; and records of donated goods and services, if any.

Condition: The County reported federal expenditures totaling \$502,196 related to the Disaster Grants – Public Assistance program. However, the accounting records did not identify specific expenditures associated with \$343,575 of this program. As a result, we were unable to identify which expenditures support the \$343,575 reported. This amount represents 68% of the total expenditures for this program.

Effect: Because the County did not comply with the OMB Circular A-133 requirements to identify the federal program under which Federal awards were expended in the accounting records, they are unable to support their compliance with the requirements of this program.

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

Recommendation: OSAI recommends the County establish internal controls to ensure all Federal awards are properly accounted for and reported on the Schedule of Expenditures of Federal Awards. OSAI also recommends FEMA files for each project worksheet on the listed disasters be maintained to provide evidence that the auditee is properly managing the Federal awards and is in compliance with OMB Circular A-133's Matrix of Compliance Requirements.

Views of responsible officials and planned corrective actions: Stephens County has established internal controls by more specific record keeping and detailing of locations to Match PWs. Research will be done to look into GPS or other measures to better identify locations.

Finding 2008-3 – Federal Awards – Schedule of Expenditures of Federal Awards

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

FEDERAL AWARD YEAR: 2008

CONTROL CATEGORY: All

QUESTIONED COSTS: \$-0-

Criteria: OMB Circular A-133§__.300 states that the auditee shall:

Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they are received. 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.

OMB Circular A-133§__.310(b) states in part:

The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements...the schedule shall:

(6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

Condition: The County has not designed and implemented formal internal controls for the reporting of its major program for Disaster Grants- Public Assistance received for the ice storm and flood disasters that occurred in 2007, as required by OMB Circular A-133. In particular, the County has not designed an accounting system or year-end process to accumulate and report its "in-kind" labor and equipment charges.

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

Effect: This condition resulted in the amount of federal expenditures for the Disaster Grants - Public Assistance not being able to be adequately reported on the Schedule of Expenditures of Federal Awards.

Recommendation: OSAI recommends the County establish internal controls to ensure all Federal awards are properly accounted for and reported on the Schedule of Expenditures of Federal Awards.

Views of responsible officials and planned corrective actions: Stephens County will prepare a system to maintain a schedule of all Federal award accounting to comply with the Schedule of Expenditures of Federal Awards for the Disaster Grants OMB Circular A-133 §__.300 and §__.310(b).

SECTION 4 —This section contains certain matters not required to be reported in accordance with *Government Auditing Standards* or OMB A-133. 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 2008-1 – Segregation of Duties – Official Depository Accounts

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: The County Sheriff has two employees that can perform the accounting functions of receipting, depositing, and reconciling; however, there is no formal segregation of duties because only one of the County Sheriff’s employees opens the mail, writes the receipts, balances the cash drawer to daily receipts, and takes deposits to the County Treasurer on a daily basis. The employee also balances the account at month end to the Treasurer’s balance. Further, the County Sheriff’s office has only one employee that can perform the accounting functions for disbursing funds. Only one employee prepares the vouchers, signs the vouchers, and distributes the vouchers for the County Sheriff’s accounts.

Effect: A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

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 employee 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 approval of accounting functions.

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

Views of responsible officials and planned corrective actions: In response to the finding of the 2008-2009 audit on the Stephens County Sheriff's Department on the accountability and overall goals of management in the accounting of funds. The Sheriff's office has two full-time employees and one part-time at the present. Any one of the three employees sorts and opens the mail on a daily basis.

At the present time we have two employees that receipt and deposit money. Vouchers are written by two employees and signed by the Sheriff or the Undersheriff.

To help ensure a proper accounting of funds, controls will be implemented to ensure that the recording, authorization, custody of assets, and execution of transactions are taken care of in a timely manner.



**OFFICE OF THE STATE AUDITOR AND INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896**

WWW.SAI.OK.GOV