

COUNTY AUDIT

PAYNE COUNTY

For the fiscal year ended June 30, 2012



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



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

**PAYNE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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Oklahoma State Auditor & Inspector

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

March 31, 2015

TO THE CITIZENS OF
PAYNE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Payne County, Oklahoma for the fiscal year ended June 30, 2012. The audit was conducted in accordance with 19 O.S. § 171.

A report of this type can be critical in nature. Failure to report commendable features in the accounting and operating procedures of the entity should not be interpreted to mean that they do not exist.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones", written in a cursive style.

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

**PAYNE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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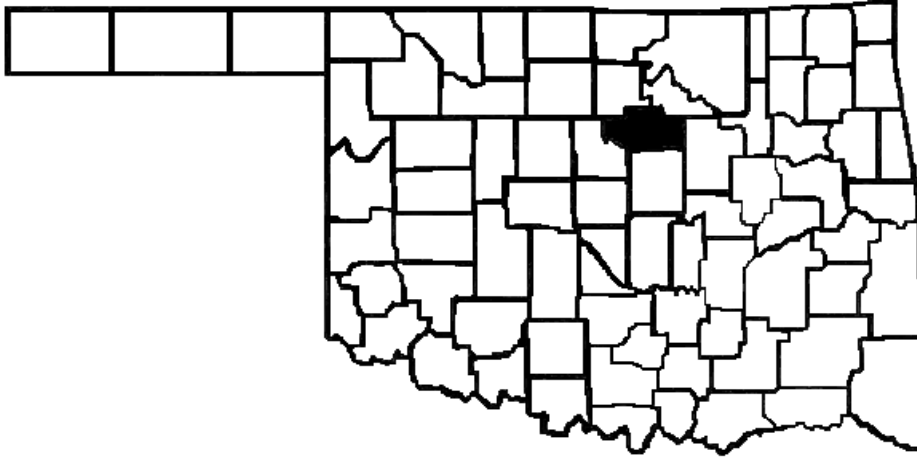
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**PAYNE COUNTY, OKLAHOMA
STATISTICAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**



Payne County was among the first counties settled during the land run of April 22, 1889. It was named to honor David L. Payne, the Boomer leader. After Payne's death in 1884, William L. Couch led the Boomers to a settlement on the banks of a creek they called the Still Water. Stillwater, thus became the name of the settlement and later of the county seat.

For more than half a century, agriculture was the basis of the county's economy, with cotton, corn, and later oats, wheat and alfalfa the major crops. Agriculture remains an important part of the economy. The number of farms has actually increased, but many are now much smaller. Livestock and hay are the primary agricultural commodities. Wheat production and dairies have declined but continue to make an impact in the county.

Since World War II, the economic base has changed. Industry has replaced agriculture as the leading source of employment. Major industrial plants along North Perkins Road in Stillwater employ more than 2,500 workers, many of whom commute from Yale, Ripley, Glencoe, Perkins, and Cushing. Oklahoma State University, which opened in 1891, is still the county's largest employer with more than 11,000 employees.

From 1913 to 1930, oil was a major economic factor in this county, but this, too, has declined except for massive facilities at Cushing, enhancing its status as "Pipeline Crossroads of the World." For more information, call the county clerk's office at 405/747-8347.

County Seat – Stillwater

Area – 697.13 Square Miles

County Population – 79,727
(2009 est.)

Farms – 1,567

Land in Farms – 356,765 Acres

Primary Source: Oklahoma Almanac 2011-2012

**PAYNE COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Board of County Commissioners

District 1 – Zachary Cavett
District 2 – Gloria Hesser
District 3 – Jim Arthur

County Assessor

James Cowan

County Clerk

Linda Hatfield

County Sheriff

R.B. Hauf

County Treasurer

Bonita Stadler

Court Clerk

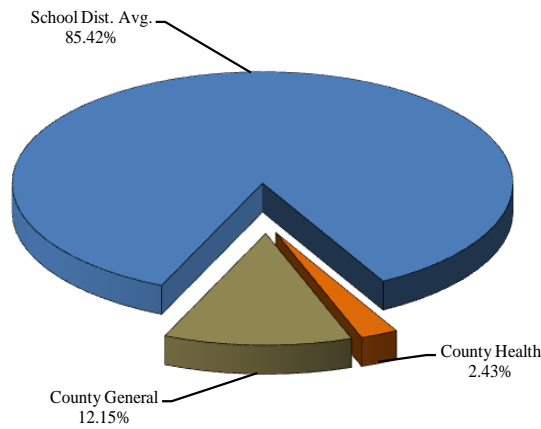
Lisa Lambert

District Attorney

Tom Lee

**PAYNE COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

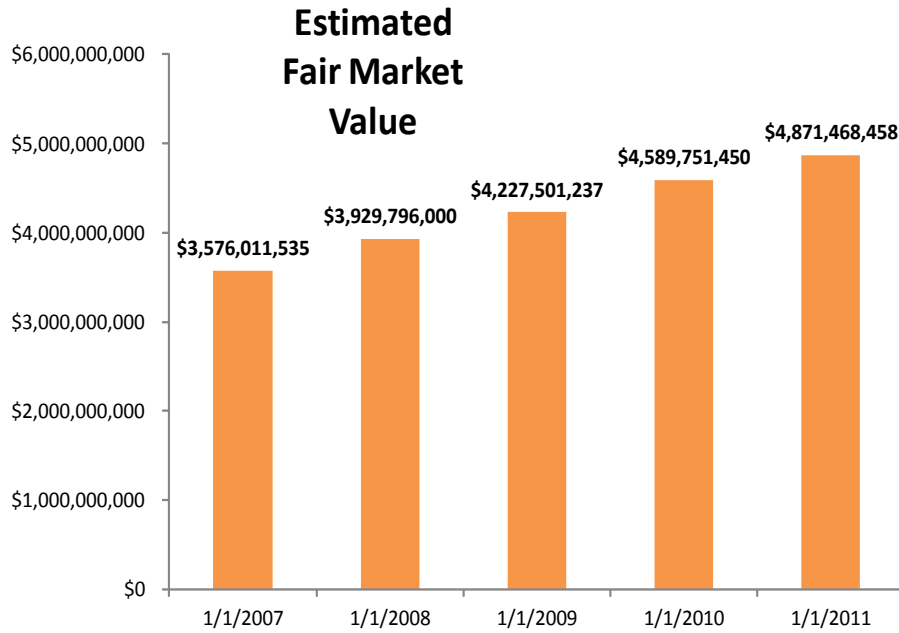
Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the 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.	Vo- Tech 16	Vo-Tech 3	Total
County General	10.27								
County Health	2.05	Ripley	I-3	36.75	5.25	17.19	-	13.22	72.41
		Logan	I-3	36.44	5.21	9.99	15.47	-	67.11
		Noble	I-36	36.55	5.22	12.26	15.47	-	69.50
<u>Individual Millages</u>		Logan	I-14	38.31	5.47	11.85	-	-	55.63
Stillwater	4.95	Stillwater	I-16	36.04	5.15	27.77	15.47	-	87.43
Yale EMS	3.00	Creek	I-20	38.21	5.46	22.01	-	13.22	78.90
Perkins	0.69	Creek	I-39	36.12	5.16	37.08	-	13.22	91.58
		Perkins	I-56	36.32	5.19	22.68	15.47	-	80.35
		Cushing	I-67	35.37	5.05	5.03	-	13.22	58.67
		Glencoe	I-101	36.39	5.20	11.46	15.47	-	68.52
		Yale	I-103	36.74	5.25	-	-	13.22	55.21
		Oakgrove	D-104	35.99	5.14	3.73	-	13.22	58.08

**PAYNE COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

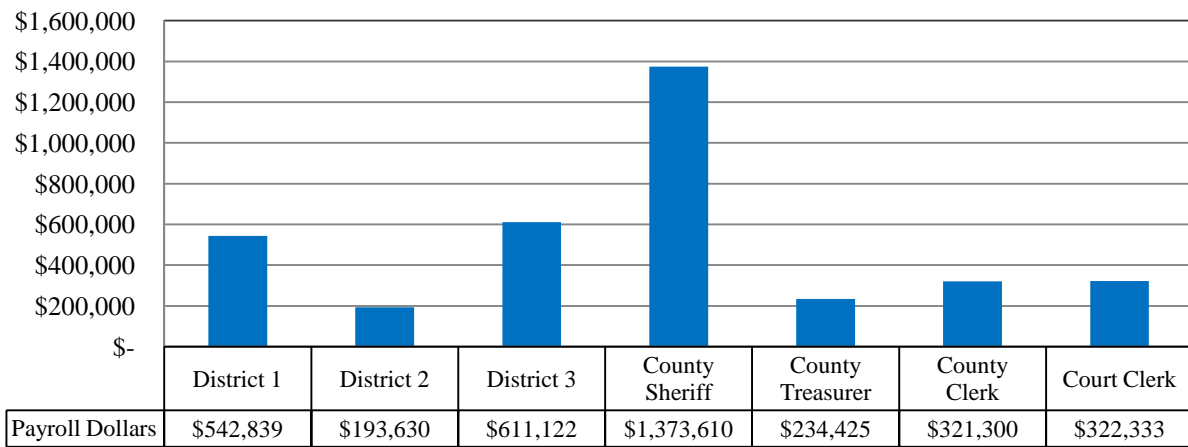
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2011	\$135,559,314	\$77,901,489	\$383,342,653	\$12,227,241	\$584,576,215	\$4,871,468,458
1/1/2010	\$125,334,566	\$56,547,094	\$381,354,005	\$12,465,491	\$550,770,174	\$4,589,751,450
1/1/2009	\$98,277,559	\$39,303,945	\$356,967,250	\$12,613,613	\$481,935,141	\$4,227,501,237
1/1/2008	\$92,618,998	\$36,687,373	\$331,270,469	\$12,580,096	\$447,996,744	\$3,929,796,000
1/1/2007	\$76,440,712	\$37,764,703	\$305,994,585	\$12,534,685	\$407,665,315	\$3,576,011,535



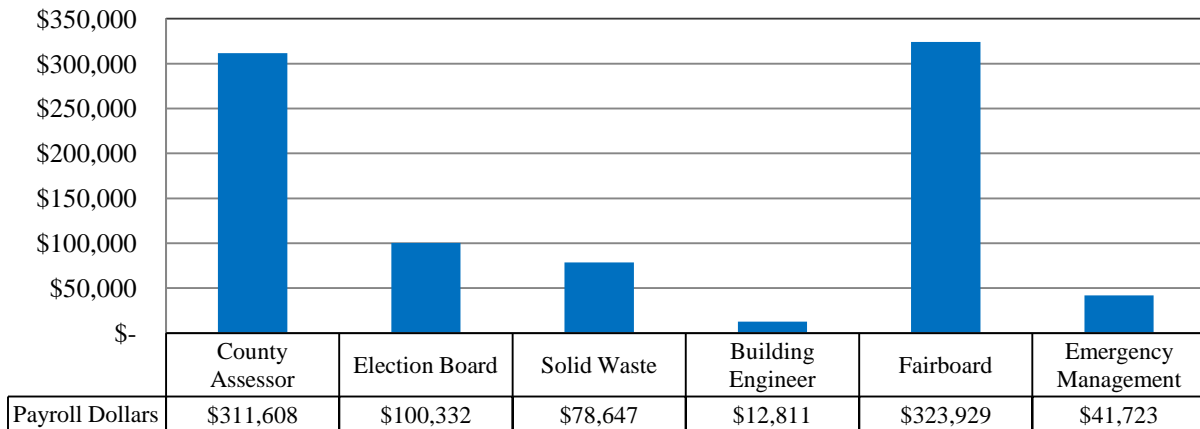
**PAYNE COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County officers' salaries are based upon the assessed valuation and population of the counties. State statutes provide guidelines for establishing elected officers' salaries. The Board of County Commissioners sets the salaries for all elected county officials within the limits set by the statutes. The designated deputy or assistant's salary cannot exceed the principal officer's salary. Salaries for other deputies or assistants cannot exceed the principal officer's salary. The information presented below is for the fiscal year ended June 30, 2012.

Payroll Expenditures by Department



Payroll Expenditures by Department



FINANCIAL SECTION



Oklahoma State Auditor & Inspector

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

Independent Auditor's Report

TO THE OFFICERS OF
PAYNE COUNTY, OKLAHOMA

We have audited the combined total—all county funds on the accompanying regulatory basis Statement of Receipts, Disbursements, and Changes in Cash Balances of Payne County, Oklahoma, as of and for the year ended June 30, 2012, listed in the table of contents as the financial statement. This financial statement is the responsibility of Payne County's management. Our responsibility is to express an opinion on the combined total—all county funds 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 differences between this regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, because of the effects 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 Payne County as of June 30, 2012, 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 balances for all county funds of Payne County, for the year ended June 30, 2012, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2015, on our consideration of Payne 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 county funds on the financial statement. The Other Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the financial statement. Such supplementary information has been subjected to the auditing procedures applied in the audit of the combined total—all county funds on the regulatory basis Statement of Receipts, Disbursements and Changes in Cash Balances and, in our opinion, is fairly stated, in all material respects, in relation to the combined total—all county funds. The information listed in the table of contents under Introductory Section has not been audited by us, and accordingly, we express no opinion on it.

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

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

March 25, 2015

REGULATORY BASIS FINANCIAL STATEMENT

PAYNE COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)—MAJOR FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Beginning Cash Balances July 1, 2011	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2012
Combining Information:						
Major Funds:						
County General Fund	\$ 5,006,160	\$11,004,911	\$ 17,524	\$ 1,370,829	\$ 8,829,904	\$ 5,827,862
Highway Cash Fund	830,290	4,399,170	10,356	-	3,768,224	1,471,592
Board of Prisoners Fund	718,699	574,676	-	-	648,898	644,477
Resale Property Fund	325,616	845,071	11,221	-	283,937	897,971
County Health Department	1,627,183	1,243,923	-	-	543,978	2,327,128
Sheriff Service Fee	635,214	515,639	-	70	520,860	629,923
Self Insurance Fund	1,526,832	887,602	-	-	1,068,511	1,345,923
Sheriff Commissary	58,888	96,349	-	-	76,383	78,854
Jail Operations and Maintenance	1,173,834	1,282,393	1,200,109	-	2,215,975	1,440,361
E-911 Fund	242,551	859,186	-	33,990	656,460	411,287
Sheriff Courthouse Security	60,988	44,792	77,496	-	145,203	38,073
105 Monies	1,258,581	387,509	-	-	586,184	1,059,906
Remaining Aggregate Funds	626,052	377,654	93,760	4,000	290,091	803,375
Combined Total - All County Funds	<u>\$ 14,090,888</u>	<u>\$22,518,875</u>	<u>\$ 1,410,466</u>	<u>\$ 1,408,889</u>	<u>\$19,634,608</u>	<u>\$ 16,976,732</u>

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

**PAYNE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Payne County is a subdivision of the State of Oklahoma created by the Oklahoma Constitution and regulated by Oklahoma Statutes.

The accompanying financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds under the control of the primary government. The general fund is the county's general operating fund, accounting for all financial resources except those required to be accounted for in another fund, where its use is restricted for a specified purpose. Other funds established by statute and under the control of the primary government are also presented.

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

B. Fund Accounting

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

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

County General Fund – accounts for revenues from ad valorem taxes, officer's fees, sales tax, interest earnings, and miscellaneous collections of the County. Disbursements are for the general operations of the County.

Highway Cash Fund – accounts for revenues from state imposed fuel taxes. Disbursements are for the constructing and maintaining of county roads and bridges.

Board of Prisoners Fund – accounts for the collection of fees charged for boarding prisoners for other governments in the jail. Disbursements are for the operations of the jail.

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

County Health Department – accounts for monies collected on behalf of the county health department from ad valorem taxes and state and local revenues, and miscellaneous fees

**PAYNE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

charged by the county health department. Disbursements are for the operation of the county health department.

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

Self Insurance Fund – established to administer the County’s self insurance fund and accounts for insurance receipts and disbursements.

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 to improve or provide jail services.

Jail Operations and Maintenance – accounts for the collection of county sales tax and disbursements are for the purpose of jail operations and maintenance.

E-911 Fund – accounts for monies received from private telephone companies for the operations of emergency 911 services.

Sheriff Courthouse Security – accounts for collections of fees assessed for criminal and traffic cases filed in the Court Clerk’s office for the purpose of enhancing existing or providing additional courthouse security.

105 Monies – accounts for collections from state receipts and disbursements are for the purpose of maintaining bridges and roads.

C. Basis of Accounting

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

Title 19 O.S. § 171 specifies the format and presentation for Oklahoma counties to present their financial statement in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or on a regulatory basis. The County has elected to present their financial statement on a regulatory basis in conformity with Title 19 O.S. § 171. County governments (primary only) are required to present their financial statements on a fund basis format with, at a minimum, the general fund and all other county funds, which represent ten percent or greater of total county revenue. All other funds included in the audit shall be presented in the aggregate in a combining statement.

**PAYNE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 May 31 of each year, each officer or department head submits an estimate of needs (budget) to the governing body. The budget is approved for the respective fund by office, or department and object. Within weeks, the County Budget Board may approve changes of appropriations within the fund by office or department and object.

E. Cash and Investments

For the purposes of financial reporting, "Ending Cash Balances, June 30" includes cash and cash equivalents and investments as allowed by statutes. The County pools the cash of its various funds in maintaining its bank accounts. However, cash applicable to a particular fund is readily identifiable on the County's books. The balance in the pooled cash accounts is available to meet current operating requirements.

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

The County Treasurer has been authorized by the County's governing board to make investments. Allowable investments are outlined in statutes 62 O.S. § 348.1 and § 348.3.

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. All investments as classified by state statute are nonnegotiable certificates of deposit. Nonnegotiable certificates of deposit are not subject to interest rate risk or credit risk.

2. Ad Valorem Tax

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

**PAYNE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

3. Other Information

A. Pension Plan

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

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates.

B. Other Post Employment Benefits (OPEB)

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

C. Contingent Liabilities

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

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

**PAYNE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

D. Sales Tax

The voters of Payne County approved a three-eighths percent (3/8%) sales tax effective January 1, 2009. This sales tax expired on December 31, 2013. This sales tax was established to provide revenue for:

Road and Bridge Improvements	53.00%
Expo Center and Fairboard	20.00%
General Fund purposes	15.00%
Extension Center	7.00%
Fire Departments	5.00%

The voters of Payne County approved a one-fourth (1/4%) percent sales tax for the acquiring, construction, furnishing and equipping of the new County Jail effective April 1, 2006 and will terminate on March 31, 2021.

The voters of Payne County approved a one-eighths (1/8%) percent sales tax for the payment of the costs of operation and maintenance of the new County Jail effective April 1, 2006 and has an unlimited duration.

These funds are accounted for in the County General Fund.

E. Interfund Transfers

During the fiscal year, the County made the following transfers:

- The County transferred \$17,524 to the County General Fund from the following funds:
 - Sheriff Service Fee - \$70
 - E-911 Fund - \$17,454
- The County transferred \$1,370,829 from the County General Fund to the following funds:
 - Flood Plain - \$10,000
 - Jail Operations and Maintenance - \$1,200,109
 - Solid Waste Fund - \$63,224
 - Sheriff Courthouse Security - \$77,496
 - Fair Board Premium Fund - \$20,000; Transfers do not include the Fair Board Premium Fund; which is not presented on the County's Combined Statement of Receipts, Disbursements, and Changes in Cash Balances. This fund is classified as a Trust and Agency Fund.
- The County transferred \$10,356 from the Fair Board Cash Fund to the Highway Cash Fund. Transfers do not include the Fair Board Cash Fund, which is not presented on the

**PAYNE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County's Combined Statement of Receipts, Disbursements, and Changes in Cash Balances. This fund is classified as a Trust and Agency Fund.

- The County transferred \$4,000 from the Emergency Management Fund to the Local Emergency Planning Committee Fund.
- The County transferred \$11,221 from the Record Owner Resale Fund to the Resale Property Fund. Transfers do not include the Record Owner Resale Fund, which is not presented on the County's Combined Statement of Receipts, Disbursements, and Changes in Cash Balances. This fund is classified as a Trust and Agency Fund.
- The County transferred \$16,536 to the Solid Waste Fund from the E-911 Fund.

OTHER SUPPLEMENTARY INFORMATION

PAYNE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 5,006,160	\$ 5,006,160	\$ -
Less: Prior Year Outstanding Warrants	(326,061)	(326,061)	-
Less: Prior Year Reserves	(366,557)	(366,557)	-
Beginning Cash Balances, Budgetary Basis	<u>4,313,542</u>	<u>4,313,542</u>	<u>-</u>
Receipts:			
Ad Valorem Taxes	5,703,417	6,067,358	363,941
Charges for Services	332,337	353,729	21,392
Intergovernmental Revenues	3,588,113	4,406,377	818,264
Miscellaneous Revenues	161,852	177,447	15,595
Total Receipts, Budgetary Basis	<u>9,785,719</u>	<u>11,004,911</u>	<u>1,219,192</u>
Expenditures:			
District Attorney	100,000	91,116	8,884
County Sheriff	1,829,456	1,557,179	272,277
County Treasurer	154,888	143,428	11,460
County Commissioners	234,110	202,036	32,074
OSU Extension	530,640	255,619	275,021
County Clerk	333,184	327,639	5,545
Court Clerk	323,833	314,511	9,322
County Assessor	348,540	363,207	(14,667)
Revaluation of Real Property	521,573	492,194	29,379
Juvenile Shelter Bureau	2,378,210	478,107	1,900,103
Excise-Equalization Board	1,950	1,361	589
County Election Expense	143,311	133,514	9,797
Insurance - Benefits	2,201,536	1,643,736	557,800
Emergency Management	65,472	43,816	21,656
Building Maintenance Account	74,900	65,416	9,484
District 1 & 3 Maintenance & Operations	3,050,396	3,002,475	47,921
County Audit Budget Account	58,458	58,458	-
Fairboard Account	1,209,663	574,005	635,658
Cushing Fire Department	52,305	10,449	41,856
Glencoe Fire Department	50,901	11,874	39,027
Ingalls Fire Department	63,248	-	63,248
Perkins Fire Department	81,787	20,092	61,695
Ripley Fire Department	102,076	19,444	82,632
Stillwater Fire Department	75,638	29,047	46,591
Yale Fire Department	103,186	24,343	78,843
Drumright Fire Department	10,000	2,040	7,960
Total Expenditures, Budgetary Basis	<u>14,099,261</u>	<u>9,865,106</u>	<u>4,234,155</u>

Continued on next page

PAYNE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund		
	Budget	Actual	Variance
Continued from previous page			
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	5,453,347	\$ 5,453,347
Operating Transfers:			
Operating Transfers In		17,524	
Operating Transfers Out		(1,370,829)	
Net Operating Transfers		(1,353,305)	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		740	
Add: Current Year Outstanding Warrants		235,911	
Add: Current Year Encumbrances		1,491,169	
Ending Cash Balance		\$ 5,827,862	

**PAYNE 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, 2012**

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 1,627,183	\$ 1,627,183	\$ -
Less: Prior Year Outstanding Warrants	(34,223)	(34,223)	-
Less: Prior Year Reserve	(56,452)	(56,452)	-
Beginning Cash Balances, Budgetary Basis	1,536,508	1,536,508	-
Receipts:			
Ad Valorem Taxes	1,138,463	1,207,494	69,031
Charges for Services	-	21,348	21,348
Intergovernmental Revenues	-	-	-
Miscellaneous Revenues	-	15,081	15,081
Total Receipts, Budgetary Basis	1,138,463	1,243,923	105,460
Expenditures:			
Health and Welfare	2,674,971	588,215	2,086,756
Total Expenditures, Budgetary Basis	2,674,971	588,215	2,086,756
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis			
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances	\$ -	2,192,216	\$ 2,192,216
Add: Cancelled Warrants		1,093	
Add: Current Year Encumbrances		104,935	
Add: Current Year Outstanding		28,884	
Ending Cash Balance		\$ 2,327,128	

PAYNE COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS—
REMAINING AGGREGATE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Beginning Cash Balances July 1, 2011	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2012
Remaining Aggregate Funds:						
Emergency Management Fund	\$ 29,522	\$ 12,079	\$ -	\$ 4,000	\$ -	\$ 37,601
Solid Waste Fund	104,921	6,142	79,760	-	138,672	52,151
Flood Plain	13,107	-	10,000	-	6,118	16,989
County Treasurer Mortgage Certification Fee Fund	46,031	36,338	-	-	641	81,728
County Clerk Lien Fee Fund	178,583	68,663	-	-	3,873	243,373
Sheriff Training Fund	909	760	-	-	884	785
Assessor Fee Revolving	26,108	16,793	-	-	24,300	18,601
Grants	74,403	28,319	-	-	25,319	77,403
Bridge Improvement	18,309	101,130	-	-	20,237	99,202
County Clerk Records Preservation	129,764	99,330	-	-	62,533	166,561
Animal Control Strays	188	5,890	-	-	3,597	2,481
Child Abuse Prevention	3,439	608	-	-	3,917	130
Local Emergency Planning Committee	768	1,602	4,000	-	-	6,370
Combined Total - Remaining Aggregate Funds	<u>\$ 626,052</u>	<u>\$ 377,654</u>	<u>\$ 93,760</u>	<u>\$ 4,000</u>	<u>\$ 290,091</u>	<u>\$ 803,375</u>

**PAYNE COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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. Remaining County Funds

Remaining aggregate funds as presented on the financial statement are as follows:

Emergency Management Fund – accounts for monies from the Federal Government and State of Oklahoma for the operation of the Emergency Management in the County.

Solid Waste Fund – accounts for sales tax monies collected for the operation of a solid waste system.

Flood Plain – accounts for monies from the Federal Government for the purpose of preventing flooding.

County Treasurer Mortgage Certification Fee Fund – accounts for revenues from a fee for certifying mortgages. Disbursements are for any lawful expense of the Treasurer's office.

County Clerk Lien Fee Fund – accounts for fees charged by the county clerk for lien redemptions and for the purpose of remitting to lien holders.

Sheriff Training Fund – accounts for the sale of property forfeited in drug cases and for the purpose of officer training, equipment, and crime prevention.

Assessor Fee Revolving – accounts for fees charged by the County Assessor and for the purpose of any legal expenses of the Assessor's office.

Grants – accounts for monies from federal grants, federal contracts, and state programs for the purpose listed in the grant agreements.

**PAYNE COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Bridge Improvement – accounts for monies from the Oklahoma Department of Transportation for the purpose of bridge improvements throughout the County.

County Clerk Records Preservation – accounts for fees charged by the County Clerk for recording instruments for the purpose of maintenance and preservation of public records.

Animal Control Strays – accounts for monies collected from donations and for the purpose of caring for abandoned animals.

Child Abuse Prevention – accounts for monies from jurors who donate a portion of their earnings received for appearing on jury duty for the purpose of child abuse prevention activities.

Local Emergency Planning Committee – accounts for grant monies and disbursed as restricted by the grant agreement.

INTERNAL CONTROL AND COMPLIANCE SECTION



Oklahoma State Auditor & Inspector

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

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

TO THE OFFICERS OF
PAYNE COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Payne County, Oklahoma, as of and for the year ended June 30, 2012, which comprises Payne County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated March 25, 2015. 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. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County for the year ended June 30, 2012, on the basis of accounting prescribed by Oklahoma state law, described in Note 1. 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 Payne 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 Payne County's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. 2012-1, 2012-2, 2012-3, 2012-4, 2012-5, 2012-6, 2012-8, and 2012-11. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Payne 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item: 2012-3.

We noted certain matters regarding statutory compliance that we reported to the management of Payne County, which are included in Section 2 of the schedule of findings and responses contained in this report.

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

This report is intended solely for the information and use of management, those charged with governance, others within the entity, and is not intended to be and should not be used by anyone other than the specified parties. 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.



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

March 25, 2015

**PAYNE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 2012-1 – Inadequate County-Wide Controls (Repeat Finding)

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

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

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

Recommendation: The Oklahoma State Auditor and Inspector's Office (OSAI) recommends that the County design procedures to identify and address risks. These procedures should be written policies and procedures and could be included in the County's Policies and Procedures Handbook.

Management Response:

County Commissioner District 2/BOCC Chairman: Currently, each officer is responsible for the operations within their office complying with state statutes and accepted best practices, and to our knowledge, each does a good job given the size of their staff. It would be helpful if the OSAI would produce a sample set of policies for counties to use when developing their own so that we can address specific areas of concern. In the meantime, the County will be creating policies to identify, assess, and mitigate risks in processes and procedures. These will include segregating duties, additional oversight, and monitoring of processes in the future.

County Treasurer: The computer system that is utilized by the Payne County Treasurer is laden with internal controls for every aspect of the operation of the Treasurer's office. I would be happy to explain and demonstrate the safeguarding that is exemplified by the system. Furthermore, the Treasurer's office as well as the software vendor is constantly on the alert for any areas that might fall subject to risk and the appropriate changes or upgrades are applied.

The Treasurer's office also has a Disaster Recovery Plan on file and stored in the large safe in the Treasurer's office.

Criteria: Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. County management is responsible for designing a county-wide internal control system comprised of Risk Assessment and Monitoring for the achievement of these goals.

**PAYNE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Risk Assessment is a component of internal control which should provide for an assessment of the risks the County faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives.

Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that management know their responsibilities for internal control and the need to make control monitoring part of their regular operating process.

Finding 2012-2 – Inadequate Internal Controls Over Bidding and Noncompliance with State Statutes (Repeat Finding)

Condition: It was noted that a purchase was made without soliciting bids when required by statute. Also, for another purchase, a bid was received but the amount paid exceeded the encumbered amount and the amount bid by the vendor.

Instance 1:

On November 16, 2011, a purchase order (PO) was created from Fairboard Account 01-84-2005ST. PO #2575 was for the purchase of repairing and cleaning the kitchen roof over the Expo/Heritage Halls for the amount of \$9,955.00. This PO had two invoices, dated November 28, 2011 and December 2, 2011. Each invoice was for \$4,977.50, with an overall combined total of \$9,955.00. This purchase had County receiving reports dated November 29, 2011 for \$4,977.50 and December 5, 2011 for \$4,977.50. The County did not follow the Public Competitive Bidding Act, which requires vendors to submit written bids or for the County to obtain competitive quotes on construction contracts for the purpose of making repairs to public buildings.

Instance 2:

On December 12, 2011, a purchase order was created from the General Government Account 01-20-2580 for Bid #2012-29. PO# 3007 was for the purchase of carpet removal, labor, and the installation of new carpet. The amount encumbered on the PO was \$14,500.00. On February 24, 2012, the PO was adjusted for an additional \$600.00 from the encumbered amount to include extra labor and materials, which were not included on the Invitation to Bid Sheet from the vendor. The County paid the vendor \$15,100.00. This resulted in the County paying \$600.00 more on Bid #2012-29 than was encumbered by the County on the PO and was also bid by the vendor.

Cause of Condition: Procedures, designed by statute, have not been followed to ensure that bid procedures are followed as required by state statutes.

Effect of Condition: These conditions resulted in noncompliance with state statutes.

**PAYNE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Recommendation: OSAI recommends the County follow the bid procedures as outlined in Title 19 § 1505(B).

OSAI recommends the County follow the Public Competitive Bidding Act for any expenditures made for the repair and improvement of public buildings as outlined in Title 61 O.S. § 103 (B) of the Oklahoma Public Competitive Bidding Act.

Management Response:

County Commissioner District 2/BOCC Chairman: Instance 1 and 2 are below the amounts requiring bidding. I don't know why the dates were so drawn out, but fire departments are not as knowledgeable about county purchasing procedures, and the Commissioner involved is no longer living. The current administration has instituted policies and procedures to avoid this issue, and will follow all statutes regarding bidding.

Criteria: Title 19 O.S. § 1505(B) requires the counties to solicit bids, compare them to the state contract price for the items, and select "the lowest and best bid based upon, if applicable, the availability of material and transportation cost to the job site within 30 days," specifying the reason "any time the lowest bid was not considered to be the lowest and best bid".

Title 61 O.S. § 103 (B) states, "Except as provided in subsection D of this section, other construction contracts for the purpose of making any public improvements or constructing any public building or making repairs to the same for Fifty Thousand Dollars (\$50,000) or less shall be let and awarded to the lowest responsible bidder by receipt of written bids or awarded on the basis of competitive quotes to the lowest responsible qualified contractor. Work may be commenced in accordance with the purchasing policies of the public agency."

Finding 2012-3 – Inadequate Internal Controls Over Purchasing and Noncompliance with State Statutes

Condition: While testing 83 disbursements, we noted the following deficiencies:

- 9 purchase orders and supporting documentation could not be located.
- 9 purchase orders were not timely encumbered.
- 7 purchase orders did not have receiving reports attached to the documentation.

Cause of Condition: The County did not follow the policies and procedures designed by state statutes regarding the purchasing process.

Effect of Condition: These conditions resulted in noncompliance with state statutes, laws, regulations or legislative intent, and could result in inaccurate records, incomplete information, or misappropriation of assets.

**PAYNE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Recommendation: OSAI recommends that the County adhere to state purchasing guidelines. Purchase orders should be encumbered before goods or services are ordered and contain proper supporting documentation.

Management Response:

County Commissioner District 2/BOCC Chairman: Several areas fell short. POs were not adequately vetted before submission, and not adequately checked by the Clerk's office before payment. Faulty PO's should have been turned back when identified. The Clerk's office has a new staff in place and has implemented policies that avoid this problem. The Commissioners will create additional steps to ensure that the PO's are complete before submission.

County Commissioner District 3: I feel that the Clerk's department should have checked these PO's. If they weren't right, turn them down for payment as the Commissioners should.

County Clerk: These purchase orders were processed and handled by the prior County Clerk administration.

Criteria: Title 19 O.S. § 1505(B) requires the counties to solicit bids, compare them to the state contract price for the items, and select "the lowest and best bid based upon, if applicable, the availability of material and transportation cost to the job site within 30 days," specifying the reason "any time the lowest bid was not considered to be the lowest and best bid."

Finding 2012-4 – Inadequate Internal Controls Over the Reconciliation of the General Ledger (Repeat Finding)

Condition: The County Clerk's appropriation ledger was not reconciled monthly to the County Treasurer's general ledger during the 2012 fiscal year.

Cause of Condition: Policies and procedures were not designed regarding a monthly reconciliation of the County Clerk's appropriation ledger to the County Treasurer's general ledger.

Effect of Condition: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, misappropriation of funds, or clerical errors that are not detected in a timely manner.

Recommendation: OSAI recommends that the County Clerk's appropriation ledger (record of disbursements) be reconciled monthly to the County Treasurer's general ledger.

Management Response:

County Commissioner District 2/BOCC Chairman: The County CPA reconciles the appropriations ledger annually at the end of each fiscal year. The new County Clerk has also instituted policy to complete this at the end of each year.

**PAYNE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County Treasurer: The appropriation ledger is reconciled at the end of the fiscal year by the County CPA. This procedure has been accomplished each year.

County Clerk: I will work to develop procedures to reconcile monthly with the County Treasurer.

Auditor Response: OSAI recommends that the County Clerk's appropriation ledger (record of disbursements) be reconciled monthly rather than annually, to the County Treasurer's general ledger.

Criteria: Safeguarding controls are an aspect of internal controls. Safeguarding controls relate to the prevention or timely detection of unauthorized transactions and unauthorized access to assets. Failure to perform tasks that are part of internal controls, such as reconciliations not prepared or timely prepared, are deficiencies in internal control. Further, reconciliations should be performed on a monthly basis.

Finding 2012-5 – Inadequate Segregation of Duties – County Treasurer (Repeat Finding)

Condition: A concentration of duties exists in the County Treasurer's office because one person is responsible for posting to the general ledger, preparing the monthly reports, and reconciling the bank accounts. Also, there was no evidence to reflect the bank reconciliations were reviewed by someone other than the preparer.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate segregation of duties and the review of the bank reconciliations.

Effect of Condition: This condition 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 oversight 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. OSAI recommends that someone other than the preparer review and signoff on the bank reconciliations.

Management Response:

County Commissioner District 2/BOCC Chairman: The segregation of duties is accomplished as far as possible with a staff of two bookkeepers and the Treasurer. The Treasurer does review the reconciliations on a regular basis. These reviews are inclusive to the operation of the office.

**PAYNE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County Treasurer: The segregation of the duties is accomplished as far as is possible with a staff of two bookkeepers and the Treasurer. The Treasurer does review the reconciliations on a regular basis. These reviews are all inclusive to the operation of the office.

Auditor Response: Although the office is limited in staff, mitigating controls such as reviewing work of others could be implemented to reduce the risks of error and fraud. Evidence of the review should be noted with initials and dates.

Criteria: Effective internal controls require that key functions within a process be adequately segregated to allow for prevention and detection of errors and possible misappropriation of funds.

Finding 2012-6 – Inadequate Segregation of Duties – Payroll (Repeat Finding)

Condition: Upon inquiry and observation of the County’s payroll process, it was noted that the Payroll Clerk enrolls new hires, makes payroll changes, runs verification reports, prints payroll checks, distributes payroll checks, and maintains personnel files.

Cause of Condition: Policies and procedures have not been designed with regard to segregation of duties and/or compensating controls of the payroll process.

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

Recommendation: OSAI recommends management be aware of these conditions and determine if duties can be properly segregated. 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.

Management Response:

County Commissioner District 2/BOCC Chairman: The County Clerk’s office has established internal policies and procedures to create a dual check and balance system for processing county payroll. There was no procedure in place prior to January, 2013.

County Clerk: The County Clerk’s office has established internal policies and procedures to create a dual check and balance system for processing county payroll in the office of the County Clerk. There was no procedure or process in place prior to my taking office in January, 2013.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated.

**PAYNE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Finding 2012-8 – Inadequate Internal Controls Over Operational Transfers and Noncompliance with State Statutes (Repeat Finding)

Condition: During the fiscal year, the County made many transfers between the budgeted and restricted cash funds presented on the Treasurer’s general ledger. Budgeted funds as well as funds deposited into revolving cash funds are restricted by statute and comingling of these funds are not allowed.

Further, the County General Fund revenues and County Health Department Fund revenues are budgeted funds and the use of these funds are restricted by statute. These funds are budgeted to meet the expenditure requirements for the current fiscal year. If the funds are not used, they are lapsed and used for the expenditure requirements of the next fiscal year.

The following was noted:

- The County transferred \$1,370,829 from the County General Fund during the fiscal year to various other funds. Further, the County transferred \$17,524 to the County General Fund from various other funds. These transfers were not authorized by statute and resulted in earmarked funds being used for other purposes.
- The County also transferred funds between other Restricted Cash Revolving funds including Emergency Management Fund, Resale Property Fund, and Solid Waste Fund. These transfers were not authorized by statute and resulted in earmarked funds being used for other purposes.
- Details of these transfers are presented in footnote 3E in this report.

Cause of Condition: Policies and procedures have not been designed to ensure compliance with Title 19 O.S. § 1418 and Title 62 O.S. § 331 which restrict the transferring and comingling of specific revenue sources.

Effect of Condition: This condition resulted in noncompliance with state statutes and earmarked funds being used for purposes other than those outlined in state statutes.

Recommendation: OSAI recommends the County cease all activity of transferring funds between restricted and earmarked budgeted funds and Restricted Cash Revolving funds. Transfers between funds should only be made for those limited specific purposes as stated in the statutes.

Management Response:

County Commissioner District 2/BOCC Chairman: The transfers as reflected on the financial statement were made with the approval of the Budget Board in an open meeting for operating purposes. Now that this has been brought to our attention, we will take steps to utilize the revenue from the funds as restricted by statute.

County Commissioner District 3: We will check and make sure we abide by state statutes on these items.

**PAYNE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County Clerk: I did not take office as Payne County Clerk until January 1, 2013. This was a finding for the former administration.

County Treasurer: The Treasurer has no control over the information that appears on transfers that are made by other offices. The only transfer that the Treasurer's office performs is a transfer from the County General Fund to the Jail Operations and Maintenance, which is really not "transfers" in the sense that this discussion is being conducted. Other transfers might be when corrections are required because of erroneous information provided on miscellaneous receipts, etc.

Criteria: Title 19 O.S. § 1418 states, "A county budget board may authorize transfers of any unencumbered and unexpended appropriation or any portion thereof from one expenditure category to another within the same department or from one department to another within the same fund, except that no appropriation for debt service or other appropriation required by law or resolution may be reduced below the minimums required. Interfund transfers may be made only as authorized by this act or as provided in the budget as adopted or amended according to Sections 10, 14, and 20 of this act."

Title 62 O.S. § 331 states in part, "First. All funds for current requirements arising out of an ad valorem tax levy assessed and collected under the provisions of Section 9, Article 10, Constitution, as amended, ... are hereby declared to constitute the "General Fund" of such county, city, town, independent or dependent school district, or other municipal subdivisions of the state. All special "funds" arising out of an ad valorem tax levy, within the limitations of said Section 9, Article 10, Constitution, ... authorized or required by existing laws to be devoted to a specific or special purpose, or that may hereafter be so authorized or required, unless specifically excepted, shall, from and after the effective date of this act, be accounted for as integral "budget accounts" within and as a part of the said "General Fund." Each such integral budget account shall bear the title ascribed by law to such special purpose, and it shall be subject to be so itemized for purpose of appropriation as the law may direct for the accomplishment of such special purpose, and none of the items of appropriation within such special budget account shall ever be expended for any purpose other than provided by the law creating such special fund (now budget account) nor shall any part of it ever be available for transfer to any other budget account within the General Fund. It is provided, however, that cancellation and/or transfer between the several items of appropriation for a special purpose within the limitations and in the manner provided by law is hereby authorized."

Finding 2012-11 – Inadequate Internal Controls and Noncompliance with State Statutes Regarding Acceptance of Bids (Repeat Finding)

Condition: The Board of County Commissioners (BOCC) solicits bids for commonly-used goods and services, but its process of accepting bids does not appear to comply with Title 19 O.S. § 1505(B) regarding the purchase of commonly-used items and Title 19 O.S. § 1501(A)(3)(j) regarding the purchase of "processed native materials for road and bridge improvements."

**PAYNE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

After bids for commonly-used goods and services are solicited and opened, the Payne County BOCC accepts all bids submitted without regard as to whether or not each bid is the lowest and best bid.

- Asphalt
- Concrete
- Pouring/Finishing Concrete
- Road Rock
- Bridge Materials
- Lumber
- Culvert Pipe
- Grader Blades
- Heavy-equipment Rental
- Road-striping
- Batteries
- Corrugated Steel Pipe
- Petroleum Products
- Tires/Tire Repair/Tubes
- Trucking Services

With the exception of road rock, none of the solicitations are for “processed native materials for road [or] bridge improvements,” including solicitations for bridge materials which are comprised mostly of non-native materials.

Additionally, no documentation was maintained to indicate any vendor was contacted at the time of work to determine both its ability and availability to provide goods or services.

Cause of Condition: Policies and procedures have not been designed to ensure compliance with Title 19 O.S. § 1505(B), which requires that counties award bids to the lowest and best bidders.

Effect of Condition: These conditions resulted in noncompliance with state statutes regarding the awarding of bids. As a result, the County often did not obtain the best prices for road projects or for materials purchased from the commonly-used goods bid lists. In effect, this practice resulted in a vendor being awarded a project for which no bid had been submitted.

Recommendation: OSAI recommends the County discontinue its practice of accepting all bids for services or for commonly-used goods that are not processed native materials for road or bridge improvements and award the contract to the lowest and best bidder. County officials should clearly document the reason for not awarding a bid to the lowest bidder.

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Management Response:

County Commissioner District 2/BOCC Chairman: “All Bids” were selected for items on highway bids, due to availability, distance, and quality of product. Given the fluid nature of availability in this area, a condition made worse due to the oil activity, it was accepted that this was the best way to go to get the best prices on materials, as this was how it had been done previously, and the Commissioners were unaware that this was wrong. Procedures are now in place to accept just the lowest and best.

County Commissioner District 1: I recall accepting bids WITH regards to vendor with lowest bid based upon availability and destination. When lowest bid is unable to provide product in a timely manner (depending on the urgency of project), I can use the next lowest bidder who is able to supply product in a timely manner. When purchasing native materials, one rock crusher of the four local rock crushers may be closer to destination of material, or, at any given time one crusher may have a higher quality (BEST) material over the other crusher, depending on many variables like, wet weather, the layer of material they are in, etc.

County Commissioner District 3: We select all bids for items on Highway bids. This is due to availability and how good the product, also distance is another factor. We will abide by the state statutes and this won’t happen again.

Auditor Response: If the lowest and best bid is not accepted, supporting documentation should be included with the purchase order stating the reason why the lowest and best bid was not selected. It should also be noted in the minutes of the BOCC meeting.

Criteria: Best business practices would include soliciting bids from vendors with the goal of obtaining quality goods and/or services for the best price.

When counties purchase “needed or commonly [-] used supplies, materials, [or] equipment,” Title 19 O.S. § 1505(B) requires the counties to solicit bids, compare them to the state contract price for the items, and select “the lowest and best bid based upon, if applicable, the availability of material and transportation cost to the job site within 30 days,” specifying the reason “any time the lowest bid was not considered to be the lowest and best bid.”

When counties purchase “processed native materials for road and bridge improvements,” Title 19 O.S. § 1501(A)(3)(j) requires the counties to solicit bids but allows them to “*** accept all bids received, with the lowest and best bid from those accepted to be selected *** based upon availability, bid price, plus transportation costs *** at the time of opening of any construction project.” OSAI would note the distinction between the terms “accept” and “award.” A decision to accept a bid is based upon it meeting certain bid specifications and, thus, is determined to be a qualified bid. The statutory guidance to award a bid is to identify the lone bidder who best meets the “lowest and best bid” criteria to the exclusion of all other bidders.

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Further, Title 19 O.S. § 1505(B)(5) outlines the procedures to follow when the low bidder cannot fulfill a county bid contract. The statute states, “If a vendor who is the low bidder cannot or will not sell goods or services as required by a county bid contract, the county purchasing agent may purchase from the next low bidder or take quotations as provided in paragraph 6 of this subsection, *provided, however, such purchase does not exceed Ten Thousand Dollars (\$10,000.00).*”

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 2012-9 – Inadequate Internal Controls and Noncompliance Over the Inmate Trust and Sheriff Commissary Funds (Repeat Finding)

Condition: An audit of the Inmate Trust and Sheriff Commissary Funds reflected the following:

- There is an inadequate segregation of duties regarding the County Sheriff’s Inmate Trust Fund. One employee has the duties of issuing receipts, prepares the daily deposit and performs the monthly reconciliations of the Inmate Trust Fund.
- The Sheriff’s office does not make daily deposits.
- The Sheriff’s office does not file an annual report for the Commissary Fund with the Board of County Commissioners by January 15, of each year.
- There is not a secondary review and sign-off of the bank reconciliation.
- While reviewing the Inmate Trust Fund bank statements, it was noted that a total of thirteen (13) checks from the fiscal year 2012 did not have two signatures on the Inmate Trust checks.

Cause of Condition: Policies and procedures have not been designed regarding the Inmate Trust and Sheriff Commissary Funds.

Effect of Condition: These conditions resulted in noncompliance with state statutes, laws, regulations or legislative intent. Also, without proper accounting and safeguarding of the Inmate Trust Fund, there is an increased risk of misappropriation of funds.

Recommendation: OSAI recommends that the Sheriff maintain Inmate Trust Fund monies in a manner that reflects each inmate’s trust deposits, disbursements, and account balances. The inmate’s trust fund balances should be reconciled to the bank statements each month, collection of inmate monies should be deposited daily, and no operating expenditures should be made from this fund. All checks from the Inmate Trust Fund should be signed and have two authorized signatures. The County Sheriff should comply with state statutes regarding the Commissary Fund with the County Treasurer. The Sheriff should file a report of the commissary with the County Commissioners by January 15, of each year.

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Management Response:

County Commissioner District 2/BOCC Chairman: Since this finding was initially brought up in the recent 2010 Audit, the Sheriff's office has segregated the duties, has added an elected official or designee to review and sign off on the statements, and require 2 signatures on each check. Additionally, an annual report is now submitted to the Board of County Commissioners.

County Sheriff: Segregation of duties: The employees that use the commissary software each have their own login. One will receipt the funds taken in (by book-in, mail, or KIOSK) and the other will do the daily deposit. The employee that receives the bank statement will reconcile it. The elected official or his designee will do the secondary review and sign off on the statement. Authorized signers on the checks have been brought up to date and educated that two (2) signatures are mandatory on each check. Annual report filing with the Board of County Commissioners is now being implemented.

Criteria: Effective accounting procedures and internal controls are necessary to ensure stewardship and accountability of public funds. Safeguarding controls are an aspect of internal controls. Safeguarding controls relate to the prevention or timely detection of unauthorized transaction and unauthorized access to assets. Failure to perform tasks that are part of internal controls, such as reconciliations not performed or not timely prepared, are deficiencies in internal control. Further, reconciliations should be performed on a monthly basis.

Effective internal controls should provide for procedures wherein receipts for the monies collected are maintained and available for inspection and deposits are made in a timely manner.

Title 19 O.S. § 180.43 E and D states in part, "Any funds received pursuant to said operations shall be the funds of the county where the persons are incarcerated and shall be deposited in the Sheriff's Commissary Account. The sheriff shall be permitted to expend the funds to improve or provide jail services. The sheriff shall be permitted to expend any surplus in the Sheriff's Commissary Account for administering expenses for training equipment, travel or for capital expenditures. The claims for expenses shall be filed with and allowed by the board of county commissioners in the same manner as other claims. The Sheriff shall receive no compensation for the operation of said commissary. The sheriff shall file an annual report on any said commissary under his or her operation no later than January 15 of each year."

Title 19 O.S. § 531A states in part, "...the county sheriff may establish a checking account, to be designated the "Inmate Trust Fund Checking Account," ...The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account and may write checks to the Sheriff's Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate for unencumbered balances due the inmate upon his or her discharge." In addition, Title 19 O.S. § 531 C. states in part, "...Banking fees on the account may be paid out of the Sheriff Commissary Account or the county sheriff's Service Fee Cash Fund."

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Finding 2012-12 – Inadequate Internal Controls Over Federal Awards - Schedule of Expenditures of Federal Awards (SEFA) (Repeat Finding)

Condition: Upon inquiry of County Officers and staff, and confirming the federal revenue received by the County, it was noted that supporting documentation was not included by the County for most of the federal awards on the County prepared Schedule of Expenditures of Federal Awards (SEFA). After reviewing the official depository and miscellaneous receipts, it was determined that receipts had been issued for federal revenue awarded; however, the receipts had not been earmarked as federal funds. Thus, the federal revenue was not recognized, and the federal expenditures were not reported on the SEFA. It should be noted that the County Sheriff's office did provide supporting documentation for the federal monies awarded to their office.

Cause of Condition: Procedures have not been designed to accurately account for the application, receipt, and expenditure of federal awards. Information regarding federal awards is not being clearly communicated between the County Commissioners, County Clerk, and County Treasurer. In some instances, information has not been effectively communicated by the pass-through agency to the County recipients with regard to identifying federal funds.

Effect of Condition: These conditions resulted in difficulty in reporting the amount of expenditures in a timely and accurate manner, which could ultimately result in discontinuation of federal assistance.

Recommendation: OSAI recommends the County establish a policy for accounting for all federal grants awarded to the County. These policies should incorporate, by reference, applicable federal regulations to be followed, as well as the appropriate policy for the application, receipt, and expenditure of federal funds. OSAI also recommends that amounts be reported on the Schedule of Expenditures of Federal Awards be reconciled to accounting records.

Management Response:

County Commissioner District 2/BOCC Chairman/County Clerk: The Accounts Payable person in the County Clerk's office is now responsible for all SEFA paperwork and accounting, as all payments come through her anyway. She will be maintaining all records, designating all expenses within the SEFA, and storing all documentation. The centralization of this function should improve all aspects of this finding.

County Commissioner District 1: Will try to ensure a proper accounting of funds and accurate record of federal expenditures are maintained.

County Commissioner District 3: I think that all offices should have a better working relationship with the records and these things would not happen.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds and accurate record of federal expenditures should be maintained.

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OMB Circular A-133 Subpart C §__.300 reads as follows:

Subpart C-Auditees

§__.300 Auditee responsibilities

The auditee shall:

(b) 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.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §__.310



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