

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

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

August 28, 2006

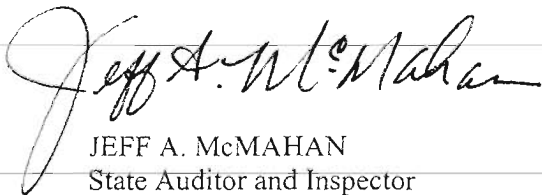
TO THE CITIZENS OF
KAY COUNTY, OKLAHOMA

Transmitted herewith is the audit of Kay County, Oklahoma, for the fiscal year ended June 30, 2005. A report of this type is critical in nature; however, we do not intend to imply that our audit failed to disclose commendable features in the present accounting and operating procedures of the County.

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

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

Sincerely,


JEFF A. McMAHAN
State Auditor and Inspector

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

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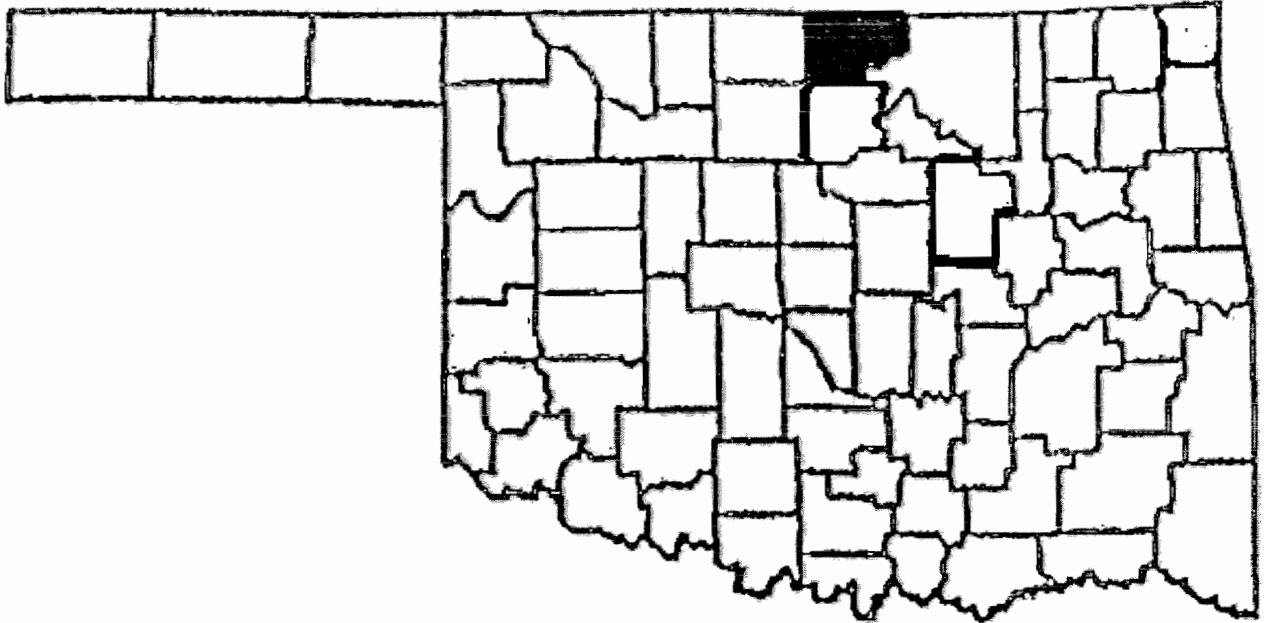
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**KAY COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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REPORT TO THE CITIZENS
OF
KAY COUNTY, OKLAHOMA



Located in north central Oklahoma bordering Kansas, Kay County was formed from the “Cherokee Strip” or “Cherokee Outlet.” Originally designated as county “K,” its name means simply that. The economy of the county is based on petroleum wealth as well as productive agricultural land. Kay County was once home to Territorial Governor William M. Jenkins and infamous outlaw Belle Starr.

County Seat – Newkirk

Area – 945.12 Square Miles

County Population – 46,761
(2004 est.)

Farms – 1,003

Land in Farms – 479,927 Acres

Primary Source: Oklahoma Almanac 2005-2006

See independent auditor’s report.

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

COUNTY ASSESSOR

Judy Barnes
(D) Newkirk

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

Tammy Reese
(R) Blackwell

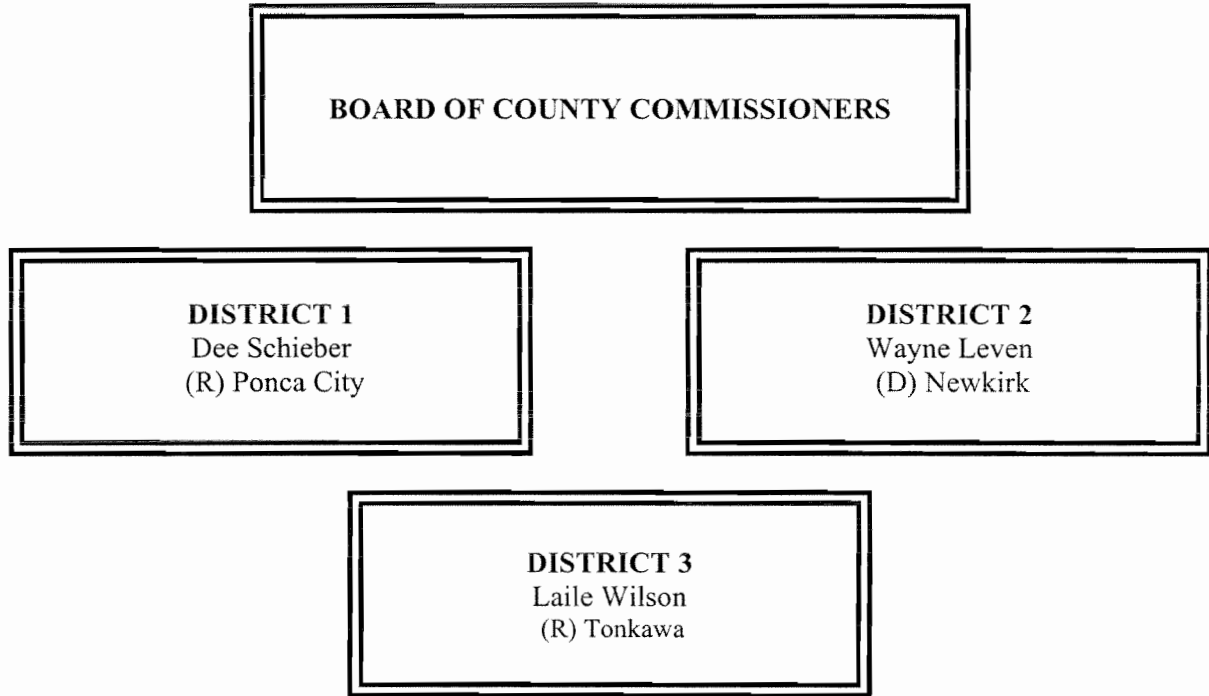
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

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.

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



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

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

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

See independent auditor's report.

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

COUNTY SHERIFF

Everette Van Hoesen
(R) Ponca City

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

Pat Schieber
(R) Newkirk

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

To account for county collections and disbursements, the County Treasurer is required to maintain an accurate record of all the monies received and disbursed. The State Auditor and Inspector's Office prescribes all the forms used by the County Treasurer, and at least twice a year inspects the County Treasurer's accounts.

See independent auditor's report.

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

COURT CLERK
Glenda Emerson
(R) Blackwell

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

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

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

Monies from the court fund are identified for distribution by the Court Clerk to the appropriate units of county and state government. Court Clerks use forms and follow procedures prescribed by the Court Administrator's Office, the Oklahoma Supreme Court, and the State Auditor and Inspector.

DISTRICT ATTORNEY
Mark Gibson
(R) Perry

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.

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

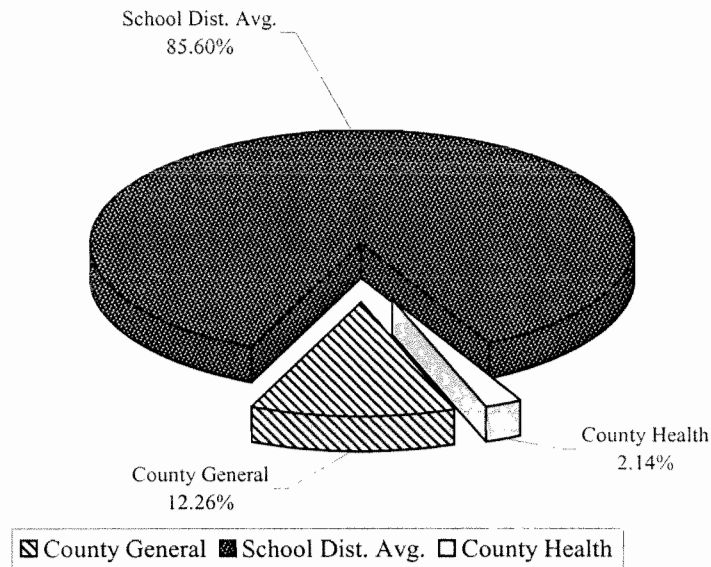
ELECTION BOARD SECRETARY
Carol Kellum
(D) Blackwell

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.

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

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



County-Wide Millages	
Co. General	10.25
County Health	1.79

			School District Millages					
			Gen.	Bldg.	Skg.	Career Tech	Common	Total
Braman	I-18		36.04	5.15	7.85	15.23	4.10	68.37
Peckham	D-27		35.95	5.14		15.23	4.10	60.42
Newkirk	I-29		36.36	5.19	17.19	15.23	4.10	78.07
Blackwell	I-45		36.10	5.16	7.95	15.23	4.10	68.54
Kildare	D-50		36.48	5.21	8.96	15.23	4.10	69.98
Ponca City	I-71		35.76	5.11	19.60	15.23	4.10	79.80
Kaw City	D-84		36.32	5.19	12.69	15.23	4.10	73.53
Tonkawa	I-87		36.11	5.16	21.43	15.23	4.10	82.03
Noble - Joint	I-2		35.50	5.07	5.96	15.23	4.10	65.86
Noble - Joint	I-4		36.22	5.17	10.25	15.23	4.10	70.97
Osage - Joint	I-11		37.67	5.38	7.33	15.23	4.10	69.71
Grant - Joint	J-95		35.67	5.10	11.45	15.23	4.10	71.55

See independent auditor's report.

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

Total net assessed value as of January 1, 2004		<u>\$ 252,109,644</u>
Debt limit - 5% of total assessed value		12,605,482
Total bonds outstanding	-	
Total judgments outstanding	-	
Less cash in sinking fund	<u>-</u>	<u>-</u>
Legal debt margin		<u>\$ 12,605,482</u>

See independent auditor's report.

**KAY COUNTY, OKLAHOMA
 RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
 VALUE AND NET BONDED DEBT PER CAPITA
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005
 (UNAUDITED)**

	<u>2005</u>
Estimated population	<u>46,761</u>
Net assessed value as of January 1, 2004	<u>\$ 252,109,644</u>
Gross bonded debt	-
Less available sinking fund cash balance	<u>-</u>
Net bonded debt	<u>\$ -</u>
Ratio of net bonded debt to assessed value	<u>0.00%</u>
Net bonded debt per capita	<u>\$ -</u>

See independent auditor's report.

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

<u>Valuation Date</u>	<u>Personal</u>	<u>Public Service</u>	<u>Real Estate</u>	<u>Homestead Exemption</u>	<u>Net Value</u>	<u>Estimated Fair Market Value</u>
1/1/2004	\$75,199,425	\$157,753,435	\$30,583,054	\$11,426,270	\$252,109,644	\$2,109,363,767

See independent auditor's report.

FINANCIAL SECTION



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

Independent Auditor's Report

TO THE OFFICERS OF
KAY COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Kay County, Oklahoma, as of and for the year ended June 30, 2005, listed in the table of contents as the basic financial statement. This financial statement is the responsibility of Kay County's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. Oklahoma Statutes, in addition to audit responsibilities, assign other responsibilities to the State Auditor and Inspector's Office. Those responsibilities include providing various information technology (IT) support for county government.

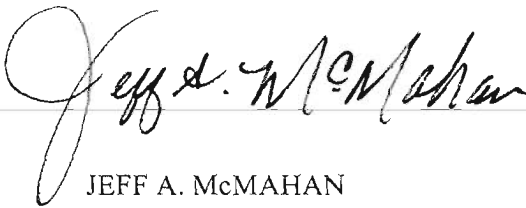
As described in Note 1, this financial statement was prepared using accounting practices prescribed or permitted by Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between 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 Kay County as of June 30, 2005, or changes in its financial position for the year then ended.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash of Kay County, for the year ended June 30, 2005, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2006, on our consideration of Kay County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the combined total of all funds within the basic financial statement taken as a whole. The combining information is presented for purposes of additional analysis rather than to present the receipts, disbursements, and cash balances of the individual funds. Also, the other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the basic financial statement. Finally, 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. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statement taken as a whole. The information listed in the table of contents under Introductory Section has not been audited by us, and accordingly, we express no opinion on it.



JEFF A. McMAHAN
State Auditor and Inspector

July 24, 2006

Basic Financial Statement

**KAY COUNTY, OKLAHOMA
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Beginning	Receipts		Ending
	Cash Balances July 1, 2004	Apportioned	Disbursements	Cash Balances June 30, 2005
Combing Information:				
General Fund	\$ 1,331,737	\$ 4,201,518	\$ 4,353,445	\$ 1,179,810
Highway Cash	589,981	5,713,020	5,719,532	583,469
Rainbow Road		1,317	1,317	
BIA-Road Projects	627	1,024,053	1,000,031	24,649
VI Reimbursement	61,224	14,534	28,889	46,869
Payroll Tax (EFTPS)	9,924	818,969	819,413	9,480
Current Tax		921	921	
Back Tax	7,189	2,316	9,505	
Resale Property	152,185	153,834	123,870	182,149
County Health Department	375,610	589,914	413,714	551,810
Sheriff Jail Cash	100,643	568,039	490,745	177,937
Sheriff Service Fee	80,196	95,550	109,799	65,947
Sheriff Commissary	9,539	5,797	6,090	9,246
Sheriff LLEBG Grant	2,435	20	2,272	183
County Clerk Lien Fee	22,153	14,442	25,934	10,661
County Clerk Records Preservation	91,947	57,823	41,595	108,175
County Treasurer Mtg Cert.	45,048	13,018	20,282	37,784
Sheriff Training	1,202	2,090	2,038	1,254
CSSP	1,000	12,692	12,000	1,692
LEPC Grant Cash Fund	4,271	4,116	1,239	7,148
EMA	23,091	50,594	49,120	24,565
Juvenile Accountability Incentive Block Grant	3,258		243	3,015
County Cash Improvement	16,910	10,751	12,066	15,595
Official Petty Cash	315			315
Combined Total--All County Funds	\$ 2,930,485	\$ 13,355,328	\$ 13,244,060	\$ 3,041,753

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

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

1. **Summary of Significant Accounting Policies**

A. Reporting Entity

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

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

B. Fund Accounting

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

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

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

Highway Cash – revenues are from state imposed fuel taxes and disbursements are for the maintenance and construction of county roads and bridges.

Rainbow Road - revenues are from property owners on this road. Disbursements are for road repairs.

BIA- Road Projects - revenues are from federal grants. Disbursements are for road and bridge improvements.

VI Reimbursement (visual inspection) – revenues are from entities who receive ad valorem taxes. Disbursements are for the re-valuation of county property.

Payroll Taxes – This account is used to deposit and transfer employee payroll taxes to the I.R.S.

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

Current Tax - Unappropriated money reserved for tax refunds.

Back Tax – revenues are from ad valorem taxes of prior years. Disbursements are to various taxing entities monthly.

Resale Property – revenues are from interest and penalties on delinquent ad valorem taxes. Disbursements are to offset the expense of collecting delinquent ad valorem taxes.

County Health Department – revenues are from ad valorem taxes, miscellaneous fees charged by the health department and state and federal funds. Disbursements are for the operation of the county health department.

Sheriff Jail Cash – revenues are from fees earned by the County for boarding other governments' prisoners in the county jail. Disbursements are for the operation of the county jail.

Sheriff Service Fee – revenues are from fees charged for serving summons and notices. Disbursements are for any lawful expense of the Sheriff's office.

Sheriff Commissary – revenues are from profits on commissary sales in the county jail. Disbursements are for jail improvements.

Sheriff LLEBG Grant – revenues are from a department of justice grant. Disbursements are for a deputy's salary.

County Clerk Lien Fee – revenues are from a fee charged by the County Clerk for filing liens. Disbursements are for any lawful expense of the County Clerk's office.

County Clerk Records Preservation – revenues are from a fee charged by the County Clerk for recording instruments. Disbursements are for the maintenance and preservation of public records.

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

Sheriff Training- revenues are from the sale of property forfeited in drug cases. Disbursements are for officer training, equipment, and crime prevention.

CSSP – revenues are from state funds reimbursing the expenses of operating a community service sentencing program. Disbursements are for any activity or equipment needed for the people fulfilling community service sentences.

LEPC Grant Cash Fund – revenues are from a grant for the Local Emergency Planning Committee at Ponca City. Disbursements are for emergency planning.

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

EMA- revenues are from state and federal funds. Disbursements are for emergency management expenses.

Juvenile Accountability Incentive Block Grant – revenues are from the Association of County Commissioners of Oklahoma. Disbursements are for the prevention of illegal dumps.

County Cash Improvement – revenues are from a county use tax. Disbursements are used to maintain the courthouse (pest control, heating and air, etc).

Official Petty Cash – accounts for change funds held by various county offices.

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.

C. Basis of Accounting

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

D. Budget

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

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

E. Cash

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

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

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 employees are entitled to vacation leave as provided by the elected official, but not to exceed the schedule as provided by statute. Vacation must be earned before it is taken. No vacation leave shall be accumulated beyond the accumulation limit. Upon termination, an employee will be paid for the balance of accrued annual leave up to the accumulation limit.

Sick leave accrual rates are at the discretion of elected officials and may not exceed forty-five 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

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

68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

The assessed property value as of January 1, 2004, was approximately \$252,109,644.

Per Article 10, § 8A, with the repeal of personal property tax, the millages with the adjustment factor are 10.25 mills (the legal maximum) for general fund operations and 1.79 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.

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

Current year tax collections for the year ended June 30, 2005, were approximately 98.14 percent of the tax levy.

3. Fuel Tax

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

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

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 		
Workers' Compensation <ul style="list-style-type: none"> • Employees' Injuries 	The County carries commercial insurance.	A judgment could be assessed for claims in excess of coverage.
Employee <ul style="list-style-type: none"> • Medical • Disability • Dental • Life 	The County carries commercial insurance.	None

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

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

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

5. Long-term Obligations

Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/or the equipment vendors or their assignees pursuant to the provisions of 69 O.S. § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest free. However, starting in January 1997, ODOT began charging a one-time fee of 3% on all pieces of machinery subsequently acquired.

6. Pension Plan

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

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. County employees are required to contribute between 3.5% and 8.5% of earned compensation. The County contributes between 5.0% and 10.0% of earned compensation. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributes 10.0% of earned compensation for elected officials. The County's contributions to the Plan for the years ending June 30, 2005, 2004, and 2003 were \$303,740, \$318,192, and \$319,437, respectively, equal to the required contributions for each year.

7. Other Post Employment Benefits (OPEB)

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

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

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.

OTHER SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 1,331,737	\$ 1,331,737	\$ 1,331,737	\$ -
Less: Prior Year Outstanding Warrants	(137,081)	(137,081)	(137,041)	40
Less: Prior Year Encumbrances	(60,624)	(60,624)	(53,347)	7,277
Beginning Cash Balances, Budgetary Basis	<u>1,134,032</u>	<u>1,134,032</u>	<u>1,141,349</u>	<u>7,317</u>
Receipts:				
Ad Valorem Taxes	2,415,069	2,415,069	2,448,109	33,040
Charges for Services	198,852	198,852	411,834	212,982
Intergovernmental Revenues	356,773	982,021	982,022	1
Miscellaneous Revenues	94,047	270,192	359,553	89,361
Total Receipts, Budgetary Basis	<u>3,064,741</u>	<u>3,866,134</u>	<u>4,201,518</u>	<u>335,384</u>
Expenditures:				
District Attorney	30,000	30,000	30,000	
Capital Outlay	3,000	3,170	3,167	3
Total District Attorney	<u>33,000</u>	<u>33,170</u>	<u>33,167</u>	<u>3</u>
County Sheriff	862,350	862,350	862,227	123
Total County Sheriff	<u>862,350</u>	<u>862,350</u>	<u>862,227</u>	<u>123</u>
County Treasurer	115,150	115,150	115,150	
Capital Outlay	5	5	5	5
Total County Treasurer	<u>115,155</u>	<u>115,155</u>	<u>115,150</u>	<u>5</u>
County Commissioners	123,450	123,450	122,250	1,200
Capital Outlay	5	5	5	5
Total County Commissioners	<u>123,455</u>	<u>123,455</u>	<u>122,250</u>	<u>1,205</u>
OSU Extension	87,437	87,437	49,058	38,379
Capital Outlay	5	5	5	5
Total OSU Extension	<u>87,442</u>	<u>87,442</u>	<u>49,058</u>	<u>38,384</u>
County Clerk	141,100	141,100	140,362	738
Capital Outlay	5	5	5	5
Total County Clerk	<u>141,105</u>	<u>141,105</u>	<u>140,362</u>	<u>743</u>

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

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

continued from previous page

	Original Budget	Final Budget	Actual	Variance
Court Clerk	217,690	217,690	217,495	195
Total Court Clerk	217,690	217,690	217,495	195
County Assessor	130,550	130,550	129,772	778
Total County Assessor	130,550	130,550	129,772	778
Revaluation of Real Property	208,448	200,137	194,723	5,414
Capital Outlay	5	8,316	8,245	71
Total Revaluation of Real Property	208,453	208,453	202,968	5,485
District Court	28,200	33,100	33,100	
Total District Court	28,200	33,100	33,100	-
General Government	381,870	380,233	377,305	2,928
Capital Outlay	5	5		5
Total General Government	381,875	380,238	377,305	2,933
Excise-Equalization Board	4,600	4,600	4,465	135
Total Excise-Equalization Board	4,600	4,600	4,465	135
County Election Board	96,582	97,435	97,261	174
Total County Election Board	96,582	97,435	97,261	174
Insurance	1,146,931	1,435,008	941,486	493,522
Total Insurance	1,146,931	1,435,008	941,486	493,522
County Purchasing Agent	21,900	21,900	21,655	245
Capital Outlay	5	5		5
Total County Purchasing Agent	21,905	21,905	21,655	250
Data Processing	54,100	43,100	42,329	771
Capital Outlay	5	11,005	10,132	873
Total Data Processing	54,105	54,105	52,461	1,644
Charity	2,500	2,500	700	1,800
Total Charity	2,500	2,500	700	1,800
FEMA-02		206,848	206,848	
Total FEMA -02	-	206,848	206,848	-

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

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

continued from previous page

	Original Budget	Final Budget	Actual	Variance
FEMA-03	500,664	531,669	477,327	54,342
Total FEMA- 03	<u>500,664</u>	<u>531,669</u>	<u>477,327</u>	<u>54,342</u>
Unappropriated Court		270,177	270,177	
Total Unappropriated Court	<u>-</u>	<u>270,177</u>	<u>270,177</u>	<u>-</u>
County Audit Budget	25,211	26,211	25,913	298
Total County Audit Budget	<u>25,211</u>	<u>26,211</u>	<u>25,913</u>	<u>298</u>
Free Fair Budget	12,000	12,000	12,000	
Total Free Fair Budget	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>-</u>
Provision for Interest on Warrants	5,000	5,000	6,007	(1,007)
Total Expenditures, Budgetary Basis	<u>4,198,773</u>	<u>5,000,166</u>	<u>4,399,154</u>	<u>601,012</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	\$ 943,713	<u>\$ 943,713</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			20,389	
Add: Current Year Outstanding Warrants			<u>215,708</u>	
Ending Cash Balance			<u>\$ 1,179,810</u>	

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

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

	County Health Department Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 375,610	\$ 375,610	\$ 375,610	-
Less: Prior Year Outstanding Warrants	(4,892)	(4,892)	(4,892)	
Less: Prior Year Encumbrances	(13,329)	(13,329)	(12,271)	1,058
Beginning Cash Balances, Budgetary Basis	<u>357,389</u>	<u>357,389</u>	<u>358,447</u>	<u>1,058</u>
Receipts:				
Ad Valorem Taxes	410,252	410,251	426,903	16,652
Miscellaneous Revenues		124,840	163,011	38,171
Total Receipts, Budgetary Basis	<u>410,252</u>	<u>535,091</u>	<u>589,914</u>	<u>54,823</u>
Expenditures:				
Health and Welfare	677,641	690,068	360,553	329,515
Capital Outlay	90,000	202,412	121,382	81,030
Total Expenditures, Budgetary Basis	<u>767,641</u>	<u>892,480</u>	<u>481,935</u>	<u>410,545</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	466,426	<u>\$ 466,426</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			56,427	
Add: Current Year Outstanding Warrants			28,957	
Ending Cash Balance			<u>\$ 551,810</u>	

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

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

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.

See independent auditor's report.

**KAY COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Passed Through State Department of Juvenile Justice:			
Juvenile Accountability Incentive Block Grants	16.523	02-JAIBG-34	\$ 225
Direct from U.S. Department of Justice:			
Local Law Enforcement Block Grant Program	16.592	03-LB-BX-1958	1,855
Total U.S. Department of Justice			<u>2,080</u>
<u>FEDERAL EMERGENCY MANAGEMENT ASSISTANCE</u>			
Passed Through State Department of Civil Emergency Management:			
Public Assistance Grants	97.036	0	657,989
Hazard Mitigation Grant	97.039		5,000
Hazard Mitigation	97.039	0	30,046
Total CFDA 97.039			<u>35,046</u>
Emergency Management Performance Grants	97.042	0	14,514
Total Federal Emergency Management Assistance			<u>707,549</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed Through Bureau of Indian Affairs:			
Highway Planning and Construction	20.205	0	3,152,607
Interagency Hazardous Materials Public Sector Training & Planning Grants	20.703	0	1,059
Total U.S. Department of Transportation			<u>3,153,666</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,863,295</u></u>

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

KAY COUNTY, OKLAHOMA
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Basis of Presentation

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

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**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
KAY COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Kay County, Oklahoma, as of and for the year ended June 30, 2005, which comprises Kay County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated July 24, 2006. Our report on the basic financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. Also, our report describes certain responsibilities of the State Auditor and Inspector's Office other than audit responsibilities. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

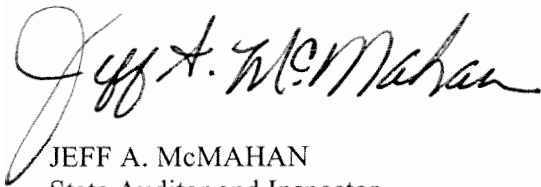
In planning and performing our audit, we considered Kay County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Kay County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 1998-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kay 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*.

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

Handwritten signature of Jeff A. McMahan in black ink.

JEFF A. McMAHAN
State Auditor and Inspector

July 24, 2006



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**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
KAY COUNTY, OKLAHOMA

Compliance

We have audited the compliance of Kay 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, 2005. Kay 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 Kay County's management. Our responsibility is to express an opinion on Kay County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kay County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kay County's compliance with those requirements.

In our opinion, Kay County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Kay County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kay County's internal control over compliance with 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink, appearing to read "Jeff A. McMAHAN". The signature is written in a cursive, flowing style with a large initial "J".

JEFF A. McMAHAN
State Auditor and Inspector

July 24, 2006

**KAY COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

SECTION I—Summary of Auditor’s Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Reportable condition(s) identified that are not considered to be material weaknesses? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weakness(es)? None reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning & Construction
97.036	Public Assistance Grants

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

Auditee qualified as low-risk auditee? No

**KAY COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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 1998-2—Segregation of Duties (Repeat Finding)

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

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

Recommendation: We recommend management be aware of this condition and realized that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management's knowledge of office operations and a periodic review of operations.

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

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

No matters were reported.