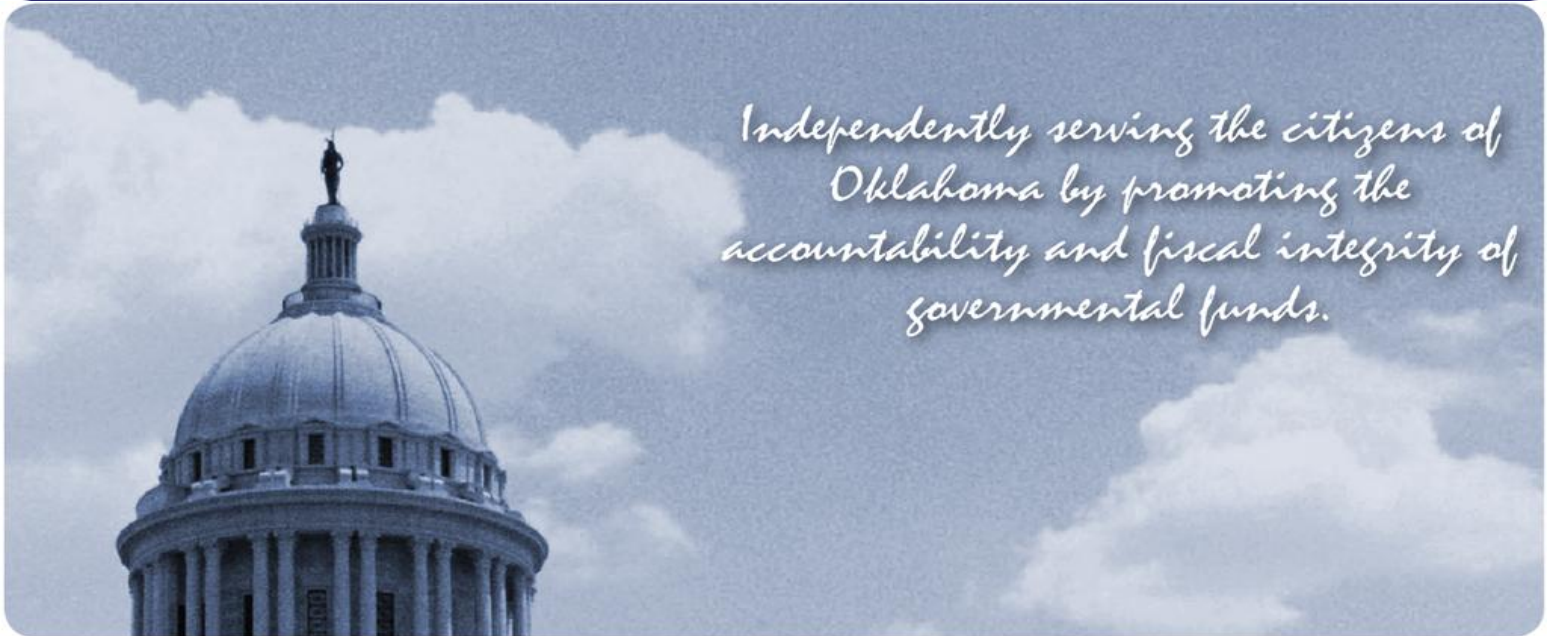


OPERATIONAL AUDIT

COAL COUNTY

For the fiscal year ended June 30, 2014



*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

**COAL COUNTY OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 19 O.S. § 171, has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Prairie Collection (<http://digitalprairie.ok.gov/cdm/search/collection/audits/>) pursuant to 65 O.S. § 3-114.



Oklahoma State Auditor & Inspector

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

May 10, 2017

**TO THE CITIZENS OF
COAL COUNTY, OKLAHOMA**

Transmitted herewith is the audit report of Coal County for the fiscal year ended June 30, 2014.

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 that reads "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

**COAL COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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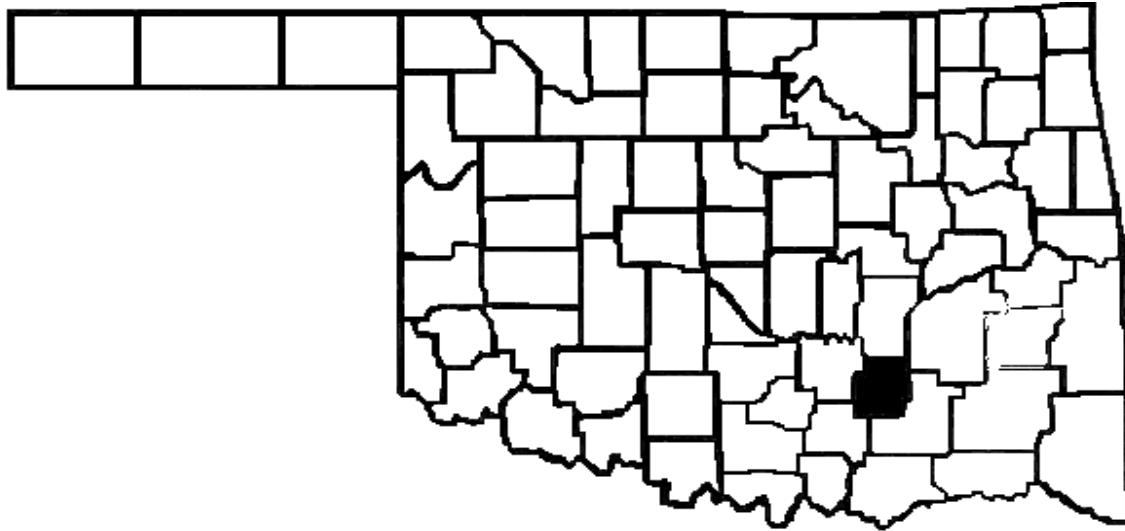
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**COAL COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**



Formally a part of Tobucksy County, Choctaw Nation, Coal County is located in southeastern Oklahoma and was created at statehood and named for the primary economic product of the region.

Coal mining was once the major industry of the county, but has been dormant since 1958. Mementos of this era may be found in the Coal County Historical and Mining Museum in Coalgate, the county seat.

While agriculture is now considered to be the primary economic mainstay of the county, businesses such as the Mary Hurley Hospital also contribute to the economy of the community.

Coal County History Book is available from the local genealogical society in Coalgate. For more county information, call the county clerk's office at 580-927-2103.

County Seat – Coalgate

Area – 521.30 Square Miles

County Population – 5,963
(2012 est.)

Farms – 634

Land in Farms – 269,401 Acres

Primary Source: Oklahoma Almanac 2013-2014

**COAL COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Board of County Commissioners

District 1 – Brock Jones
District 2 – Johnny D. Ward
District 3 – Mike Hensley

County Assessor

Cherry Hefley

County Clerk

Eugina Loudermilk

County Sheriff

Bryan Jump

County Treasurer

Gina McNutt

Court Clerk

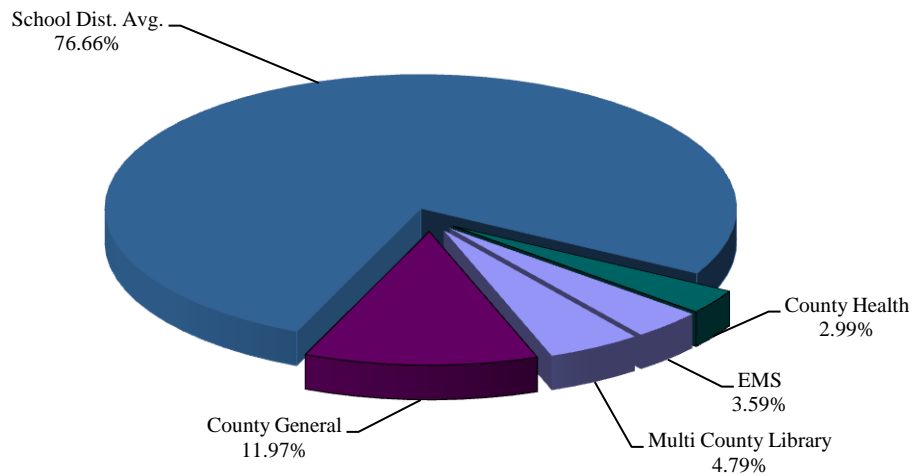
Rachel Nix

District Attorney

Emily Redman

**COAL COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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



County-Wide Millages		School District Millages							
				Gen.	Bldg.	Skg.	Career Tech.	Common	Total
County General	10.19								
County Health	2.55	Coalgate City	I-1	35.56	5.08	2.03	12.22	4.08	58.97
Multi-County Library	4.08	Coalgate Rural	C-1A	35.56	5.08	2.03	12.22	4.08	58.97
EMS	3.06	Tupelo	I-2	36.19	5.17	-	12.41	4.08	57.85
		Cottonwood	D-4	36.26	5.18	-	12.22	4.08	57.74
		Atoka Jt	I-15	36.79	5.26	25.15	12.22	4.08	83.50
		Hughes Jt	I-48	35.80	5.12	4.35	12.22	4.08	61.57
		Stonewall Jt	I-30	36.68	5.24	15.20	12.41	4.08	73.61
		Allen Jt	PI-1	36.54	5.22	8.71	12.41	4.08	66.96
		Johnston Jt	I-37	37.73	5.39	8.95	12.22	4.08	68.37

**COAL COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Sales Tax

Sales Tax of August 27, 2002

In a special election held on August 27, 2002, the voters of Coal County approved the assessment of a one percent (1%) sales tax to begin February 14, 2005, and continue for a period of ten years. Proceeds of the tax are designated as follows: County General Fund, 27%; County Sheriff and Security, 20%; OSU Extension and 4H offices, 10%; Capital Improvements on county buildings, 14%; Emergency Medical Services (Ambulance), 13%; County Senior Citizens Centers, 8%; Rural Fire Departments, 5%; and Solid Waste and Recycling programs, 3%. These funds are accounted for in the County Sales Tax fund.

Sales Tax of November 6, 2012

On November 6, 2012, the voters of Coal County approved a permanent one percent (1%) sales tax effective April 1, 2013. This sales tax is for the operation, maintenance, and improvement of Coal County General Hospital and public acute health care purposes. These funds are accounted for in the Coal County Hospital fund. In May 2014, these funds were transferred to a separate account within the County Sales Tax fund.

Sales Tax of November 12, 2013

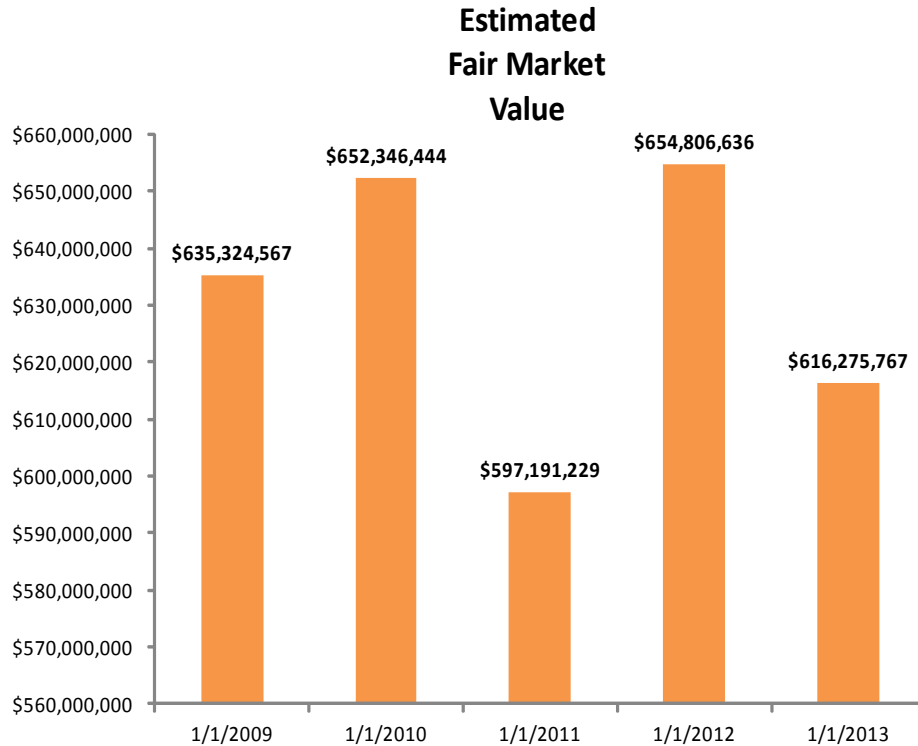
On November 12, 2013, the voters of Coal County approved a permanent one percent (1%) sales tax, beginning February 14, 2015. Proceeds of the tax are designated as follows: County General Fund, 30%; County Sheriff and Security, 24%; OSU Extension and 4H offices, 6%; Capital Improvements on county buildings, 14%; Emergency Medical Services (Ambulance), 12%; County Senior Citizens Centers, 5%; Rural Fire Departments, 6%; and Solid Waste and Recycling programs, 3%. These funds are accounted for in the County Sales Tax fund.

The Receipts Apportioned to the County Sales Tax fund and the Coal County Hospital Sales Tax fund consists of the following:

Sales Tax	\$1,322,856
Sale of Equipment	33,936
Interest	<u>2,232</u>
Total	<u>\$1,359,024</u>

**COAL COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

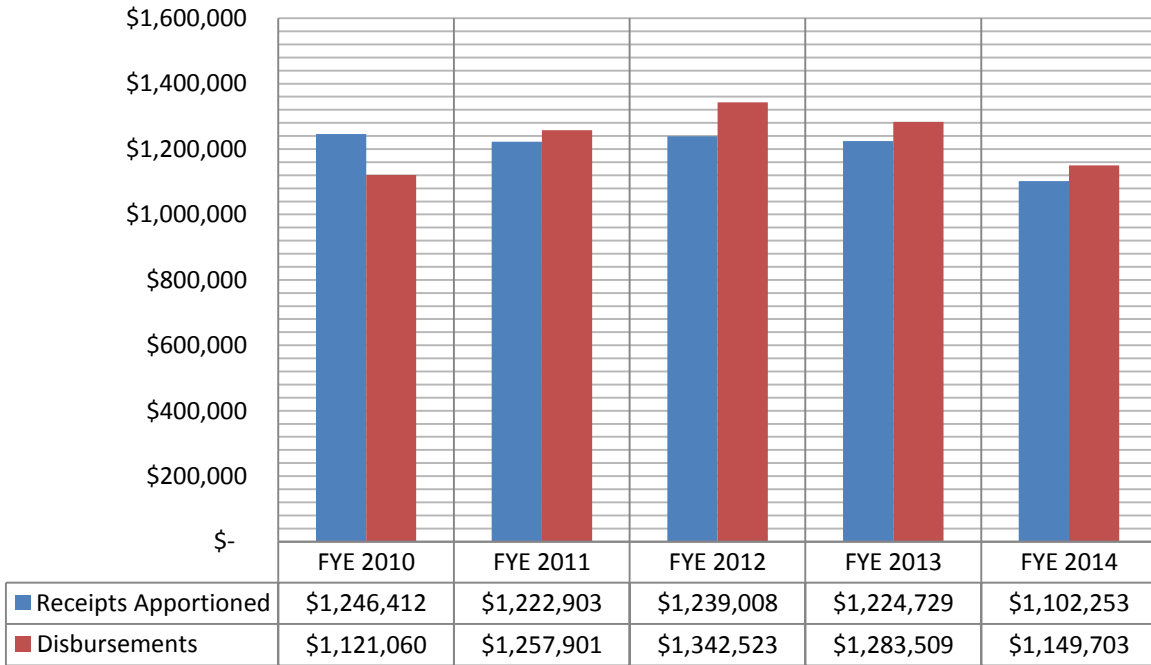
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2013	\$44,485,396	\$21,286,520	\$17,856,867	\$1,759,599	\$81,869,184	\$616,275,767
1/1/2012	\$49,461,411	\$22,483,559	\$17,307,827	\$1,771,129	\$87,481,668	\$654,806,636
1/1/2011	\$42,086,472	\$24,598,340	\$16,658,310	\$1,790,868	\$81,552,254	\$597,191,229
1/1/2010	\$46,078,338	\$30,390,569	\$16,243,199	\$1,794,174	\$90,917,932	\$652,346,444
1/1/2009	\$46,603,592	\$26,983,329	\$15,464,680	\$1,775,417	\$87,276,184	\$635,324,567



**COAL COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

County General Fund

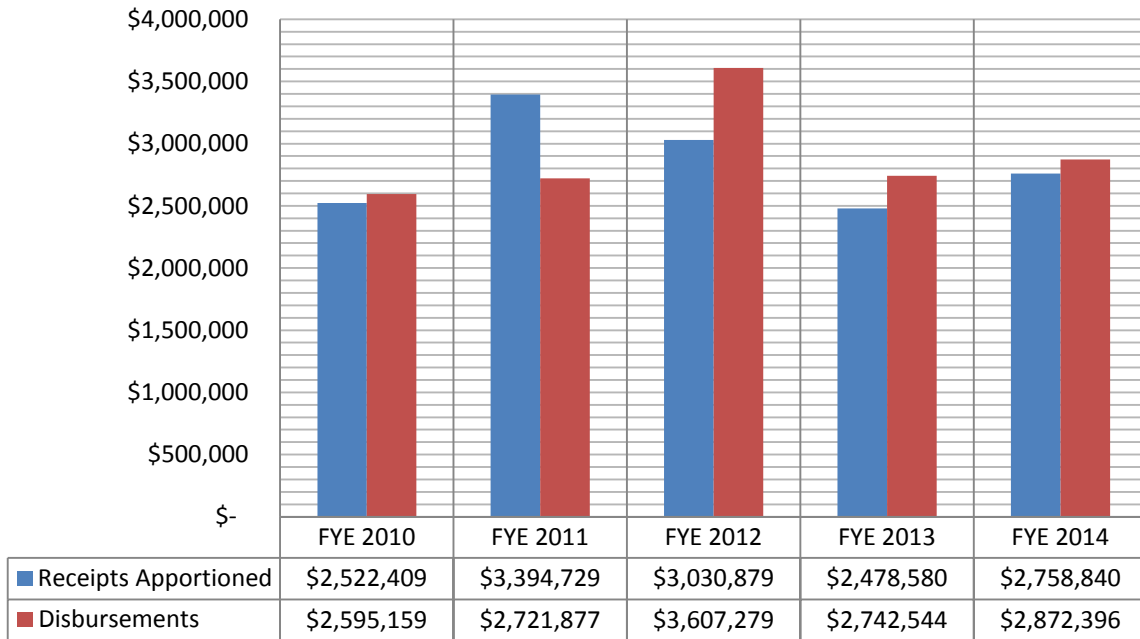
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also provides revenue for various budget accounts and accounts that support special services and programs. The Board of County Commissioners must review and approve all expenditures made from the County General Fund. The primary revenue source for the County General Fund is usually the county’s ad valorem tax collected on real, personal (if applicable), and public service property. Smaller amounts of revenue can come from other sources such as fees, sales tax, use tax, state transfer payments, in-lieu taxes, and reimbursements. The chart below summarizes receipts and disbursements of the County’s General Fund for the last five fiscal years.



**COAL COUNTY, OKLAHOMA
COUNTY HIGHWAY FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

County Highway Fund

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. The chart below summarizes receipts and disbursements of the County's Highway Fund for the last five fiscal years.



**COAL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for Fiscal Year Ended June 30, 2014

	Beginning Cash Balances July 1, 2013	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2014
Combining Information:						
County Funds:						
County General Fund	\$ 291,587	\$ 1,102,253	\$ 200,000	\$ 200,000	\$ 1,149,703	\$ 244,137
County Highway	723,902	2,758,840	-	-	2,872,396	610,346
CBRIF 105	514,403	249,719	-	-	155,862	608,260
County Health Department	377,272	202,712	-	-	294,740	285,244
County Sales Tax	3,623,869	874,637	714,487	200,000	2,232,769	2,780,224
Coal County Hospital Sales Tax	30,100	484,387	-	514,487	-	-
CDBG Home/Water Grant	600	6,250	-	-	6,250	600
CDBG CIP Grant	600	-	-	-	-	600
Resale Property	51,889	38,906	-	-	34,900	55,895
Sheriff Service Fee	36,266	70,994	-	-	56,396	50,864
Sheriff Trash Cop Grant	8	-	-	-	-	8
Treasurer Mortgage Certification Fee	9,030	1,048	-	-	-	10,078
County Clerk Lien Fee	65,329	34,282	-	-	42,215	57,396
JAI Juvenile Block Grant	702	-	-	-	-	702
Juvenile Donations	464	-	-	-	-	464
SODA HOME - OHFA	3,233	-	-	-	-	3,233
SO-5 Assessor	8,904	4	-	-	-	8,908
SO-6 Assessor	10,081	2,966	-	-	1,109	11,938
SODA Park and Fair Grounds	2,008	-	-	-	-	2,008
CDBG Library Grant	1,177	-	-	-	-	1,177
Use Tax	404,895	110,154	-	-	162,682	352,367
Coal County Library Project Fund	139	-	-	-	-	139
County Sinking	45	-	-	-	-	45
Hazard Mitigation	2,500	-	-	-	-	2,500
CDBG Health Clinic	480	-	-	-	-	480
Emergency Management	31,944	10,000	-	-	12,520	29,424
CCFFA Fire	2,226	-	-	-	-	2,226
Local Emergency Planning	8,363	-	-	-	-	8,363
Drug Court Money	33,789	70,601	-	-	58,511	45,879
911 Grant	2,576	-	-	-	2,576	-
MD4 Cash Donation Health	5,348	-	-	-	777	4,571
911 Phone Collections	59,568	59,661	-	-	74,050	45,179
Lodging Tax	8,534	5,608	-	-	-	14,142
Sheriff DARE	4,140	-	-	-	-	4,140
Combined Total - All County Funds	\$ 6,315,971	\$ 6,083,022	\$ 914,487	\$ 914,487	\$ 7,157,456	\$ 5,241,537

Source: County Treasurer's Monthly Reports (presented for informational purposes)

**COAL COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Description of County Funds

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 within the Presentation of Apportionments, Disbursements, and Cash Balances of County Funds:

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

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

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

County Health Department – accounts for monies collected on behalf of the county health department from ad valorem taxes and state and local revenues. Disbursements are for the operation of the county health department.

County Sales Tax – accounts for the apportionment, appropriation, and the disbursement of sales tax collections in accordance with the sales tax ballots.

Coal County Hospital Sales Tax – accounts for the apportionment, appropriation, and disbursement of sales tax collections in accordance with the sales tax ballot until May, 2014. All sales tax is now apportioned to one fund (County Sales Tax), appropriated to separate accounts within the fund, and disbursed in accordance with the sales tax ballot.

CDBG Home/Water Grant – accounts for federal grant monies received and disbursed for the establishment of a rural water department, as restricted by the grant agreement with the Oklahoma Department of Commerce.

CDBG CIP Grant – accounts for federal grant monies received and disbursed to create a County Improvement Plan, as restricted by the grant agreement with the Oklahoma Department of Commerce.

Resale Property – accounts for the collection of interest and penalties on delinquent ad valorem tax collections. Disbursements are to offset the expense of collecting delinquent ad valorem taxes.

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

**COAL COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Sheriff Trash Cop Grant – accounts for grant monies received and disbursed for the prevention and investigation of illegal trash dumping, as restricted by the grant agreement.

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

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

JAI Juvenile Block Grant – accounts for federal grant monies received and disbursed for the oversight of community service, as restricted by the grant agreement with the Department of Justice.

Juvenile Donations – accounts for donations used for the juvenile graduated sanctions.

SODA HOME – OHFA – accounts for federal grant monies received and disbursed for the construction of homes, as restricted by the grant agreement with the Oklahoma Housing Finance Authority and the Southern Oklahoma Development Association.

SO-5 Assessor – accounts for the collection of funding through the state for computer equipment.

SO-6 Assessor – accounts for the collection and expenditure of fees collected by the Assessor as restricted by state statute for the visual inspection program.

SODA Park and Fair Grounds – accounts for state grant monies received and disbursed for the construction of a fair barn, as restricted by the grant agreement for the parks and fairgrounds.

CDBG Library Grant – accounts for state grant monies received and disbursed as restricted by the grant agreement for the county library.

Use Tax – accounts for the receipt of use tax from the Oklahoma Tax Commission and disbursed for the general operation of the County.

Coal County Library Project Fund – accounts for state grant monies received and disbursed as restricted by the grant agreement for the county library.

County Sinking – accounts for debt service receipts derived generally from a special ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments.

Hazard Mitigation – accounts for state and federal grant monies received and disbursed for the creation of a Hazard Mitigation Plan, as restricted by the grant agreement with the U.S. Department of Homeland Security.

**COAL COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

CDBG Health Clinic – accounts for federal grant monies received and disbursed to purchase land and construct a new health clinic, as restricted by the grant agreement with the Oklahoma Department of Commerce.

Emergency Management – accounts for state and federal grant monies received and disbursed as restricted by the grant agreement with the U.S. Department of Homeland Security.

CCFFA Fire – accounts for annual dues collected prior to 2008 for a fire association comprised of eight (8) fire departments county-wide and disbursed for training and fire department supplies.

Local Emergency Planning – accounts for grant monies received and the disbursement of funds for emergency planning, training, and equipment.

Drug Court Money – accounts for federal grant monies, state monies, donations, and fees from participants and disbursed for the operation of the drug court.

911 Grant – accounts for grant monies received and disbursed to establish a county-wide 911 service, as restricted by the grant agreement with the Oklahoma Department of Commerce and the Southern Oklahoma Development Association.

MD4 Cash Donation Health – accounts for the collection of grant monies to be disbursed for the general operations of the county health department.

911 Phone Collections – accounts for the collection of an emergency telephone fee collected by local service providers for the operations of the enhanced emergency telephone system.

Lodging Tax – accounts for the excise tax collected on lodging to be used for the promotion and development of tourism in Coal County.

Sheriff DARE – accounts for donations received by the County Sheriff's office to administer the Drug Abuse Resistance Education (DARE) program.

Interfund Transfers

During the fiscal year, the County made the following transfers between cash funds.

- \$200,000 from the County Sales Tax fund to County General Fund to meet requirements of appropriations in accordance with 68 O.S. § 3021.
- \$200,000 was transferred from the County General Fund to County Sales Tax fund for the repayment of a loan in accordance with 68 O.S. § 3021.
- \$514,487 was transferred from the Coal County Hospital Sales Tax fund to the County Sales Tax Fund to close out the Coal County Hospital Sales Tax fund in order to only have one sales tax revolving fund with separate accounts within the fund.

COAL COUNTY, OKLAHOMA
COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 291,586	\$ 291,587	\$ 1
Less: Prior Year Outstanding Warrants	(74,577)	(74,577)	-
Less: Prior Year Encumbrances	(36,476)	(32,716)	3,760
Beginning Cash Balances, Budgetary Basis	<u>180,533</u>	<u>184,294</u>	<u>3,761</u>
Receipts:			
Ad Valorem Taxes	758,406	802,499	44,093
Charges for Services	41,855	49,638	7,783
Intergovernmental Revenues	234,200	139,269	(94,931)
Miscellaneous Revenues	31,697	110,847	79,150
Total Receipts, Budgetary Basis	<u>1,066,158</u>	<u>1,102,253</u>	<u>36,095</u>
Expenditures:			
County Sheriff	276,611	275,810	801
County Treasurer	80,600	79,733	867
County Commissioners	81,480	44,544	36,936
County Clerk	109,400	109,347	53
Court Clerk	121,800	120,779	1,021
County Assessor	96,375	95,989	386
Revaluation of Real Property	106,225	102,848	3,377
General Government	272,879	249,660	23,219
Excise Equalization Board	3,300	2,655	645
County Election Board	56,500	56,094	406
Emergency Management	3,257	3,257	-
County Audit Budget Account	34,371	34,371	-
Drug Court	3,893	3,892	1
Total Expenditures, Budgetary Basis	<u>1,246,691</u>	<u>1,178,979</u>	<u>67,712</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	107,568	<u>\$ 107,568</u>
Interfund Transfers:			
Transfers In:		200,000	
Transfers Out:		(200,000)	
Net Interfund Transfers:		-	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		60,876	
Add: Current Year Encumbrances		75,693	
Ending Cash Balance		<u>\$ 244,137</u>	

Source: County Estimate of Needs (presented for informational purposes)

COAL 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, 2014

County Health Department Fund			
	Budget	Actual	Variance
Beginning Cash Balances	\$ 377,272	\$ 377,272	\$ -
Less: Prior Year Outstanding Warrants	(14,717)	(14,717)	-
Less: Prior Year Encumbrances	(62,623)	(62,166)	457
Beginning Cash Balances, Budgetary Basis	299,932	300,389	457
Receipts:			
Ad Valorem Taxes	189,788	200,821	11,033
Charges for Services	-	1,763	1,763
Intergovernmental Revenues	-	2	2
Miscellaneous Revenues	2,117	126	(1,991)
Total Receipts, Budgetary Basis	191,905	202,712	10,807
Expenditures:			
County Health Budget Account	491,837	232,011	259,826
Total Expenditures, Budgetary Basis	491,837	232,011	259,826
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	271,090	\$ 271,090
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		3,019	
Add: Current Year Outstanding Warrants		11,135	
Ending Cash Balance		\$ 285,244	

Source: County Estimate of Needs (presented for informational purposes)

**COAL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

This audit was conducted in response to 19 O.S. § 171, which requires the State Auditor and Inspector's Office to audit the books and accounts of county officers.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessment of materiality and risk for the fiscal year ended June 30, 2014. Our audit procedures included:

- Inquiries of appropriate personnel,
- Inspections of documents and records,
- Observations of the County's operations,
- Reconciling total apportionments, disbursements, and balances presented on the County's Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the fiscal year to the County Treasurer's and County Clerk's financial ledgers,
- Confirming third party confirmations to the financial ledgers,
- Selecting representative samples to determine disbursements were made in accordance with state statutes, approved ballots, and county purchasing procedures, and
- Gaining an understanding of the County's internal controls as it relates to each audit objective.

To ensure the samples were representative of the population and provided sufficient, appropriate evidence, both random sample and judgmental sample methodologies were used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

This report is 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.

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2014.

Conclusion: With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. However, we noted some deficiencies in internal controls regarding the financial reporting process.

FINDINGS AND RECOMMENDATIONS

Finding 2014-2 – Inadequate Segregation of Duties Over Receipting and Balancing Processes – County Treasurer (Repeat Finding)

Condition: The following duties performed in the County Treasurer's office are not properly segregated: issuing receipts, and reconciling bank statements. The County Treasurer has implemented a few mitigating controls. After evaluating the mitigating controls that have been implemented, the following weaknesses still exist:

- In the absence of the County Treasurer, the duties of balancing the cash drawer and preparing the deposit are performed by the same employee.
- Bank reconciliations are performed on the general bank account on a monthly basis; however, there is no indication of review by someone other than the preparer.
- All employees issue receipts and have administrative rights to void/delete receipts. Approval is required by the County Treasurer, but there is no evidence of approval being documented.

The following items, when evaluated with the weaknesses noted above, further weaken controls in place regarding the collections process:

- All employees work from two (2) cash drawers, except for one part-time employee that works mainly during heavy tax collection season and only issues ad valorem receipts.

Cause of Condition: Although the County Treasurer has worked to implement internal controls over the collections process, there are still weaknesses that should be addressed to safeguard funds and ensure accurate financial reporting.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends the County Treasurer implement the following compensating controls to mitigate the risks involved with a concentration of duties:

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- Bank reconciliations should be signed and dated by the reviewer.
- Voided/deleted receipts should contain explanations and reflect evidence of a review with initials and dates.
- The County Treasurer should establish a separate cash drawer for each employee receiving cash.

Management Response:

County Treasurer: We only have two full-time employees so we do what we need to do to get the job done. We will sign and state the reason for voided receipts. I cannot afford a cash drawer for every employee and we have to work with what we have. We will sign and date the review of bank reconciliations.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of receipting collections, delivering deposit, and maintaining financial ledgers/reconciliations should be segregated.

Finding 2014-3 – Inadequate Internal Controls Over the Reconciliation of Appropriation Ledger to General Ledger (Repeat Finding)

Condition: The County Clerk does not reconcile the appropriation ledger to the County Treasurer's general ledger.

Cause of Condition: Policies and procedures have not been designed and implemented 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, or misappropriation of funds.

Recommendation: OSAI recommends that the County Clerk's appropriation ledger be reconciled to the County Treasurer's general ledger on a monthly basis. The reconciliation should be reviewed and approved by someone other than the preparer and documentation of the reconciliation should be maintained.

Management Response:

County Clerk: We will start reconciling the appropriation ledger to the County Treasurer's general ledger on a monthly basis.

Criteria: Safeguarding controls are an important aspect of internal control. Safeguarding controls relate to the prevention or timely detection of unauthorized transactions and unauthorized access to assets. Failure to perform task that are part of internal controls, such as reconciliations not prepared or not timely prepared, are deficiencies in internal control. Further, reconciliations should be performed on a monthly basis and document evidence of a review by someone other than the preparer.

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Objective 2: To determine the County's financial operations complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County and be used only for the purpose for which such sales tax was designated.

Conclusion: With respect to the items tested, the County complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County and be used only for the purpose for which such sales tax was designated.

Objective 3: To determine the County's financial operations complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

Conclusion: With respect to the items tested, the County did not comply with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

FINDINGS AND RECOMMENDATIONS

Finding 2014-11 – Inadequate Internal Controls and Noncompliance Over Ad Valorem Tax Collections and Apportionments

Condition: While reconciling the ad valorem tax collections, it was noted that the County did not apportion or appropriate the Coal County Emergency Medical Service District collections on a monthly basis.

Cause of Condition: Policies and procedures have not been designed and implemented to verify or review that revenues received were apportioned and appropriated on a monthly basis.

Effect of Condition: This condition resulted in noncompliance with state statute and could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends the County Treasurer apportion and the County Clerk appropriate the ad valorem tax collections to the Coal County Emergency Medical Service District on a monthly basis.

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Management Response:

County Treasurer: The ad valorem tax collections for the EMS have always been held in a special account, for the EMS and apportioned once a quarter. We will start apportioning the taxes to the EMS on a monthly basis.

County Clerk: We will complete the request for appropriations form 308 on a monthly basis and submit it to the County Excise Board for approval.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation.

Title 68 O.S. § 2923 states, "At the end of each calendar month the county treasurer shall apportion all collections for said month, and distribute the same among the different funds to which they belong."

Objective 4: To determine whether the County's internal controls provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records and financial operations complied with significant laws and regulations.

Conclusion: With respect to the items tested, the County's internal controls do not provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records.

Additionally, the County's financial operations did not comply with 19 O.S. § 1505, which requires that disbursements be properly supported, timely encumbered, and certified that all proper documentation is present.

FINDINGS AND RECOMMENDATIONS

Finding 2014-7 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

Condition: Upon inquiry and observation of the County's disbursement process, we note that one employee approves the issuance and encumbrance of the purchase order, certifies that the amount of the encumbrance has been entered against the designated appropriation accounts, and that the encumbrance is within the authorized balance of said appropriations.

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Of the forty (40) purchase orders tested, the following exceptions were noted:

- Nine (9) purchase orders were not timely encumbered.
- Six (6) purchase orders did not have the adequate documentation (receiving reports) attached.
- One (1) purchase order was not certified that all proper documentation was present.

Cause of Condition: Policies and procedures have not been designed and implemented over the disbursement process to strengthen internal controls and ensure compliance with state statutes.

Effect of Condition: These conditions resulted in noncompliance with state statutes and could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends management be aware of this condition 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 risk involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions.

OSAI also recommends the County adhere to state purchasing guidelines to ensure encumbrances are made before goods or services are ordered, encumbrances are certified by the County Clerk or deputy, and adequate supporting documentation is maintained. Additionally, all documentation should be reviewed for accuracy.

Management Response:

Chairman of the Board of County Commissioners: We will inform all elected officials about the importance of timely encumbering funds.

County Clerk: We will do whatever we need to do to correct this finding. We will start verifying the encumbering officer's signature on the purchase order for checks and balances.

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/disbursement calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated.

Further, Title 19 O.S. § 1505 prescribes the procedures for requisition, purchase, and receipt of goods and services.

Finding 2014-8 – Inadequate Internal Controls Over the Payroll Process (Repeat Finding)

Condition: The audit of twelve (12) payroll claims, which included sixty-seven (67) timesheets, reflected the following:

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- Four (4) timesheets were not signed by the employee and/or supervisor.
- Personnel files did not contain adequate documentation (pay rates/changes in pay rates, withholding forms payroll deductions, timesheets) for all employees.

Cause of Condition: Policies and procedures have not been designed and implemented to strengthen internal controls over the payroll process.

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

Recommendation: OSAI recommends the County ensure all personnel files contain adequate documentation to support changes in pay rates and payroll deductions. OSAI also recommends that all timesheets be signed by the employee and supervisor prior to processing payroll.

Management Response:

Chairman of the Board of County Commissioners: We will inform all elected officials about the importance of ensuring that timesheets are properly signed and completed.

County Clerk: The payroll department will implement procedures to verify that all documents are properly signed and completed. Also, we will verify that all documentation is filed in personnel files.

County Sheriff: We will make sure that all timesheets are signed by the employee and supervisor.

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.

All Objectives:

The following findings are not specific to any objective, but are considered significant to all of the audit objectives.

Finding 2014-1 – Inadequate Internal Controls Over Information Systems – County Treasurer (Repeat Finding)

Condition: The County Treasurer’s office does not have any mitigating controls to reduce the high risk associated with the lack of adequate internal controls within the County’s financial/bookkeeping software.

Cause of Condition: The County Treasurer was not aware of the lack of adequate internal controls within the software.

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

Recommendation: OSAI recommends the County Treasurer implement mitigating controls regarding the County's financial/bookkeeping software such as maintaining all receipts and daily totals/reports in a secure location with limited access. In addition, OSAI recommends software updates be implemented upon availability.

Management Response:

County Treasurer: We changed our financial/bookkeeping software program during the 2016 fiscal year.

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Deliver and Support DS5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

Finding 2014-4 – Inadequate County-Wide Controls (Repeat Finding)

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

Cause of Condition: Policies and procedures have not been designed and implemented to address risks of the County.

Effect of Condition: Without an adequate system of county-wide internal controls, there is risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends that the County design and implement procedures to identify and address risks. OSAI also recommends that the County design monitoring procedures to assess the quality of performance over time. 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 1: Coal County will design and implement a system of county-wide internal control procedures.

County Commissioner District 2: We will meet quarterly and discuss procedures to identify and address risks that are related to financial reporting, as well as monitoring procedures.

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County Commissioner District 3: The County will design and implement a system of county-wide internal control procedures.

County Clerk: I will work with the other county officials to design and implement county-wide controls to help manage risks.

County Treasurer: I will get with the other county officials to discuss control issues.

County Assessor: I will work with the other county officials to design and implement county-wide controls to help manage risks.

County Sheriff: I will work with the other county officials to design and implement county-wide controls to help manage risks.

Court Clerk: I will work with the other county officials to design and implement county-wide controls to help manage risks.

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.

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.

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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Coal County
Board of County Commissioners
Coal County Courthouse
Coalgate, Oklahoma 74538

Dear Chairman:

For the purpose of complying with 19 O.S. § 171 and 20 O.S. § 1312, we have performed statutory procedures regarding the following offices and departments for the fiscal year ended June 30, 2014:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1 and 69 O.S. § 645).
- All County Offices - Consumable Inventories procedures (19 O.S. § 1502 and 19 O.S. § 1504).
- Court Clerk procedures (20 O.S. § 1304 and 19 O.S. § 220).
- Inmate Trust Fund procedures (19 O.S. § 531 and 19 O.S. § 180.43).

Our statutory compliance engagement was limited to the procedures related to the statutes above and was less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on any basic financial statement of Coal County.

Based on our procedures performed, we have presented our findings in the accompanying schedule.

This report is intended for the information and use of the management of the County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

A handwritten signature in blue ink that reads "Gary A. Jones".

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

May 8, 2017

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SCHEDULE OF FINDINGS AND RESPONSES

Finding 2014-6 – Inadequate Internal Controls and Noncompliance Over Fixed Assets (Repeat Finding)

Condition: Upon inquiry and observation of fixed assets inventory items, we noted the following weaknesses:

- The offices of the County Clerk, County Sheriff, Court Clerk, District 1, District 3, OSU Extension, Election Board, and Emergency Management have not designed procedures to perform and document an annual physical inventory of all fixed assets.
- Inventory lists for the Court Clerk, Emergency Management, Election Board, do not appear to be complete, accurate, or up-to-date.
- The Court Clerk does not maintain and file an inventory list with the County Clerk.

Cause of Condition: Policies and procedures have not been designed and implemented by county offices/departments to ensure the accurate reporting of fixed assets.

Effect of Condition: These conditions resulted in noncompliance with state statutes. Opportunities for loss and misappropriation of county assets may be more likely to occur when the County does not have procedures in place to account for fixed assets.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 178.1 by maintaining inventory records. OSAI recommends the performance and documentation of a periodic inventory of fixed assets. Additionally, the key functions of receiving duties and inventory control duties should be performed by separate employees in order to effectively segregate those duties.

Management Response:

County Commissioner District 1: In the future I will file inventory with the County Clerk and perform an annual inventory count.

County Commissioner District 3: We will perform an annual inventory and file it with the County Clerk.

County Clerk: We will perform an annual inventory of fixed assets.

County Sheriff: We are in the process of making a correct and updated inventory list.

Court Clerk: An annual fixed assets summary will be conducted to ensure compliance.

Emergency Management: I have recently taken this position, and I am in the process of conducting an inventory count and getting all assets properly identified.

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Election Board: I will work to get a current inventory of all assets.

OSU Extension Office: I will establish procedures to ensure an annual inventory count of all fixed assets is performed, and a report is filed with the County Clerk.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation.

Title 19 O.S. § 178.1 requires the board of county commissioners in each county of this state to take or cause to be taken, an inventory of all working tools, apparatus, machinery and equipment.

Finding 2014-9 – Inadequate Internal Controls and Noncompliance Over the Court Clerk Revolving Fund and Court Fund Expenditure Processes

Condition: Upon inquiry and observation of the Court Clerk Revolving Fund and Court Fund expenditure processes, it was noted that the Court Clerk solely performs key duties with no independent verification of accuracy. The Court Clerk initiates and prepares the claim, attaches and verifies supporting documentation to claim, certifies that goods/services were received, signs the claim along with the District Judge or Associate District Judge, prepares and signs the checks, prepares the Court Clerk Revolving Fund Quarterly Reports and the Court Fund Quarterly Reports.

With regard to the test of ten (10) Court Clerk Revolving Fund claims, the following was noted:

- One (1) claim did not have the adequate documentation attached.

With regard to the test of twenty-five (25) Court Fund claims, the following exception was noted:

- One (1) claim did not have adequate approval of the governing board.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure proper segregation of duties over the Court Clerk Revolving Fund and the Court Fund expenditure processes and compliance with the state statutes.

Effect of Condition: These conditions resulted in noncompliance with state statutes. Further, lack of internal controls and a single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

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Recommendation: OSAI recommends management be aware of these conditions and determine how to implement controls over the expenditure process to safeguard assets and to properly segregate duties. OSAI further recommends implementing compensating procedures to mitigate the risks involved with a concentration of duties. Compensating procedures would include separating key processes and/or critical functions of the office, and having management review and approve the accounting functions.

Management Response:

Court Clerk: We will work to properly segregate duties.

In regards to the Court Clerk Revolving Fund:

- 1) These non-material items do not get a receiving report. Postage - I give County Clerk a letter requesting funds.

In regards to the Court Fund claims:

- 1) The claim with only one signature was an oversight and error on my part.

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 Court Clerk Revolving Fund and the Court Fund expenditures.

Title 19 O.S. § 220 states in part, "...Claims against the fund shall include only expenses incurred for the operation of the court clerk's office in each county, and payment may be made after the claim is approved by the court clerk and either the district or the associate district judge of that county."

Title 20 O.S. § 1304 provides guidance with regard to the expenditure process for the Court Fund.



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