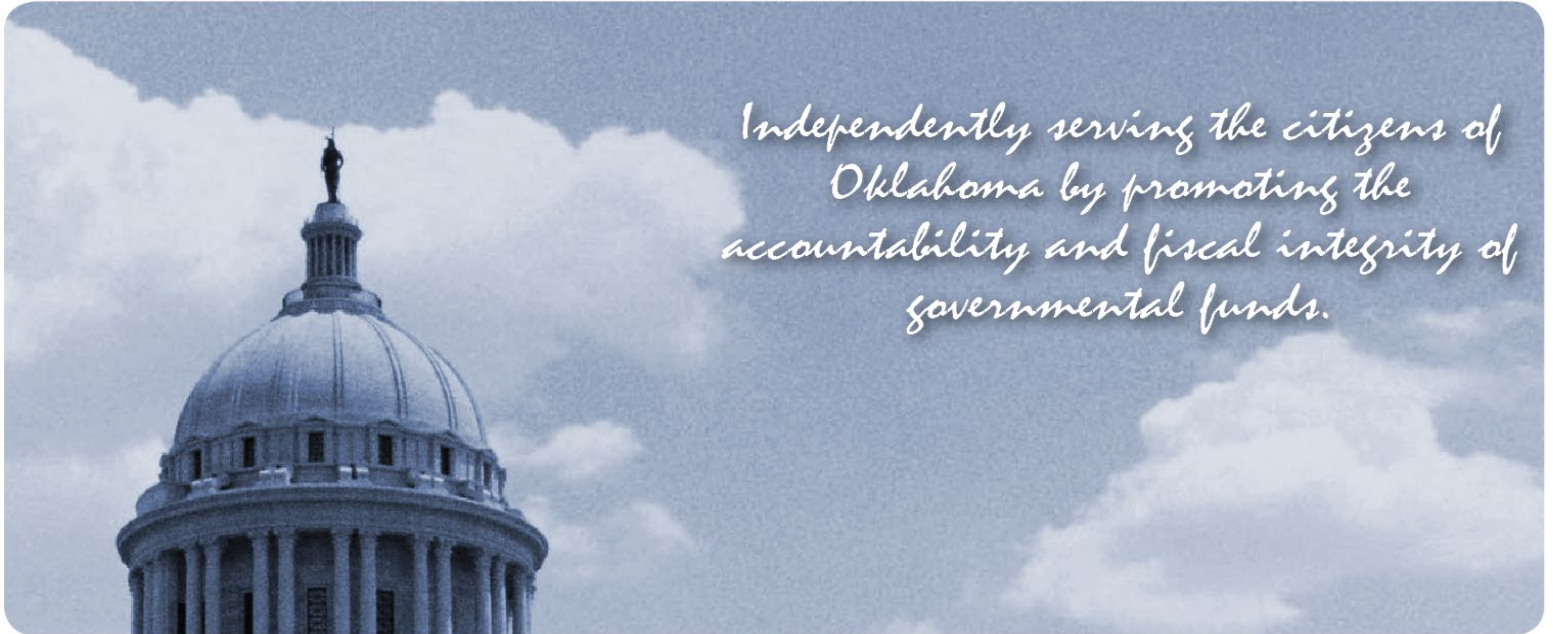


OPERATIONAL AUDIT

COAL COUNTY

For the fiscal year ended June 30, 2016



*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, 2016**

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 123 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

December 7, 2018

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

Transmitted herewith is the audit report of Coal County for the fiscal year ended June 30, 2016.

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 written in a cursive style with a large initial "G" and a long, sweeping tail.

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

**COAL COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

TABLE OF CONTENTS

OPERATIONAL AUDIT REPORT

Introductory Section (Unaudited)

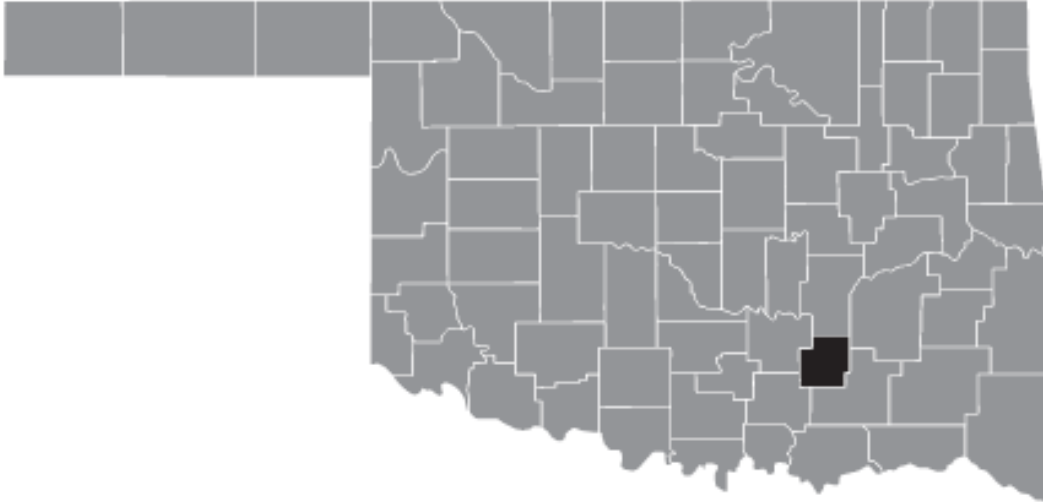
Statistical Information.....	ii
County Officials.....	iii
Ad Valorem Tax Distribution	iv
Sales Tax Distribution.....	v
Assessed Value of Property Trend Analysis.....	vi
County General Fund Analysis	vii
County Highway Fund Analysis	viii
 Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the Fiscal Year Ended June 30, 2016.....	 1
 Description of County Funds and Transfers	 2
 Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—County General Fund.....	 5
 Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—County Health Department Fund.....	 6
 Purpose, Scope, and Sample Methodology.....	 7
 Objectives and Results of Operational Audit.....	 8

REPORT ON STATUTORY COMPLIANCE - OTHER MATTERS

Statutory Report.....	17
Schedule of Findings and Responses.....	18

INTRODUCTORY SECTION
UNAUDITED INFORMATION ON PAGES ii - viii
PRESENTED FOR INFORMATIONAL PURPOSES ONLY

**COAL COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**



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 – 5,807
(2014 est.)

Farms – 571

Land in Farms – 273,616 Acres

Primary Source: Oklahoma Almanac 2015-2016

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

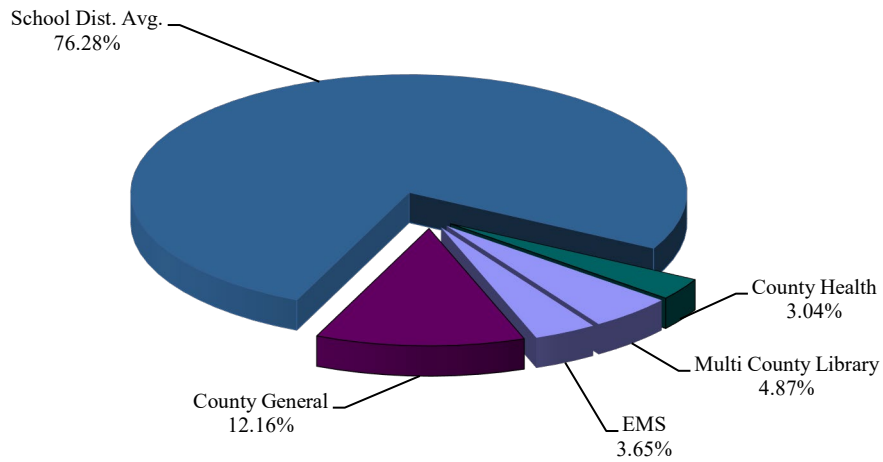
Rachel Nix

District Attorney

Emily Redman

**COAL COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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								
Multi County Library	4.08	Coalgate	I-1	35.56	5.08	-	12.22	4.08	56.94
County Health	2.55	Tupelo	I-2	36.19	5.17	-	12.41	4.08	57.85
EMS	3.06	Cottonwood	D-4	36.26	5.18	-	12.22	4.08	57.74
		Atoka Jt	I-15	36.79	5.26	24.37	12.22	4.08	82.72
		Hughes Jt	I-48	35.80	5.12	5.30	12.22	4.08	62.52
		Stonewall Jt	I-30	36.68	5.24	7.09	12.41	4.08	65.50
		Allen Jt	PI-1	36.54	5.22	6.50	12.41	4.08	64.75
		Johnston Jt	I-37	37.73	5.39	4.01	12.22	4.08	63.43

**COAL COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Sales Tax

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 within the County Sales Tax fund and the Coal County Hospital Sales Tax fund.

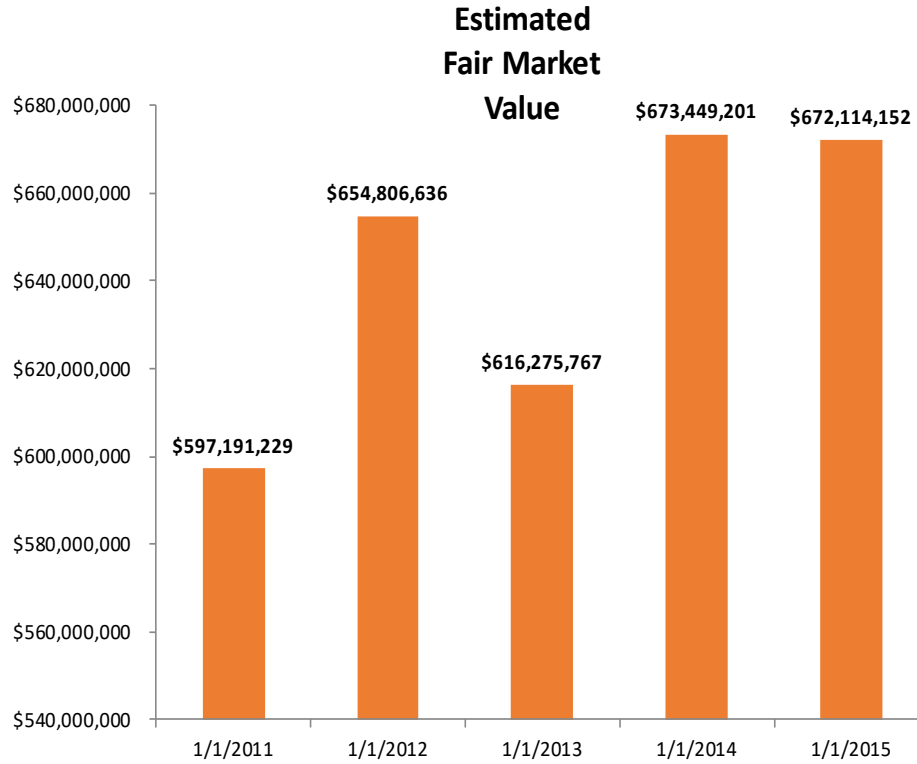
Sales Tax of November 12, 2013

On November 12, 2013, the voters of Coal County approved the renewal and making permanent the 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.

During the fiscal year the County collected \$1,844,665 in total sales tax.

**COAL COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

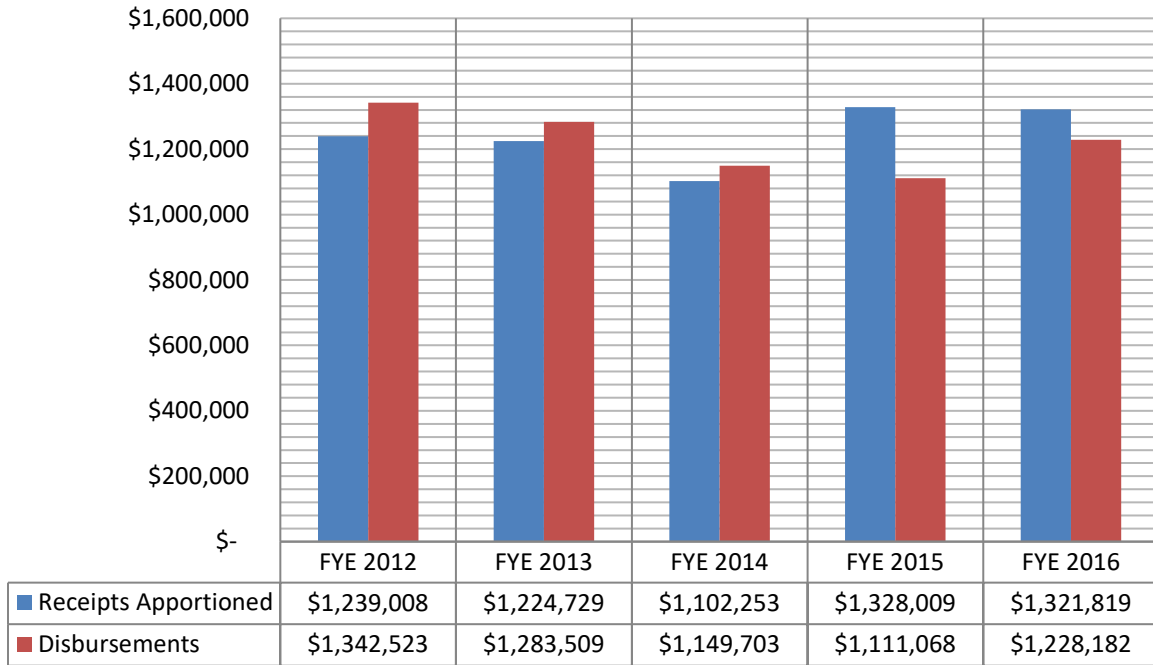
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2015	\$45,961,503	\$28,950,760	\$19,488,295	\$1,703,160	\$92,697,398	\$672,114,152
1/1/2014	\$47,238,519	\$27,916,286	\$18,348,320	\$1,709,161	\$91,793,964	\$673,449,201
1/1/2013	\$44,485,396	\$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



**COAL COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

County General Fund

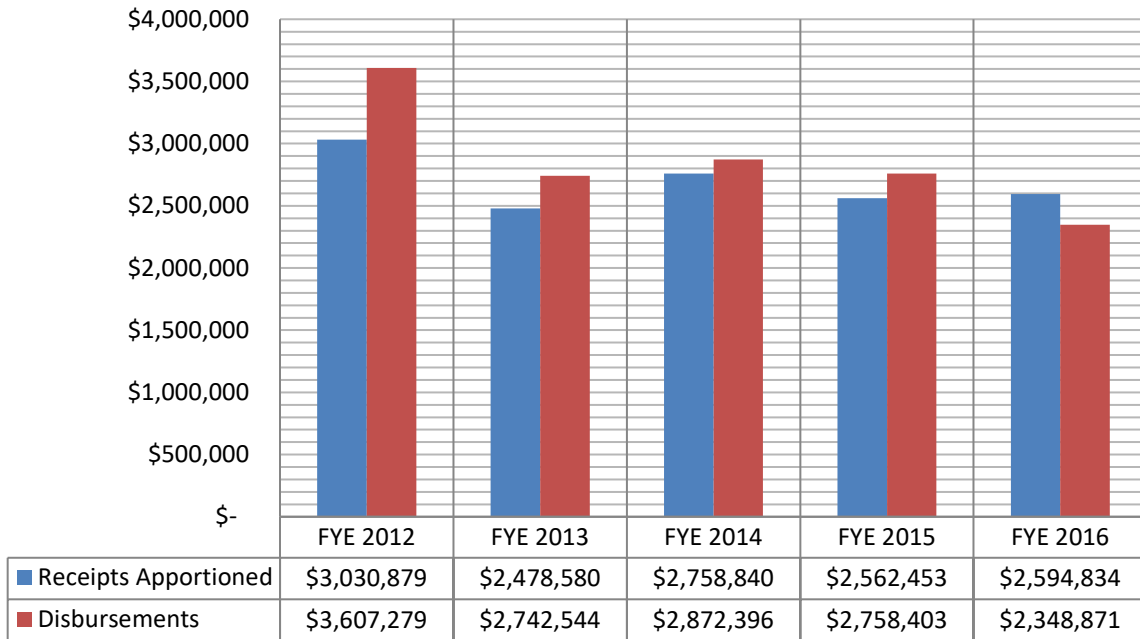
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also 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, 2016**

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, 2016**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the Fiscal Year Ended June 30, 2016

	Beginning Cash Balances July 1, 2015	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2016
Combining Information:						
County Funds:						
County General Fund	\$ 611,078	\$ 1,321,819	\$ -	\$ 150,000	\$ 1,228,182	\$ 554,715
County Highway	414,310	2,594,834	-	-	2,348,871	660,273
Resale Property	105,430	41,171	-	-	40,136	106,465
County Health Department	291,681	247,898	-	3,500	274,937	261,142
County Sales Tax	2,536,585	1,652,939	150,000	-	2,066,502	2,273,022
Coal County Hospital Sales Tax	-	327,082	-	-	-	327,082
R-8 Solid Waste	-	743	-	-	-	743
CDBG Home/Water Grant	600	6,250	-	-	6,250	600
CDBG CIP Grant	600	-	-	-	-	600
Sheriff DARE	4,140	-	-	-	-	4,140
Sheriff Service Fee	42,130	62,712	-	-	18,841	86,001
Sheriff Trash Cop Grant	8	-	-	-	-	8
Treasurer Mortgage Certification Fee	10,686	950	-	-	-	11,636
County Clerk Lien Fee	59,478	53,642	-	-	42,710	70,410
JAI Juvenile Block Grant	702	-	-	-	-	702
Juvenile Donations	464	-	-	-	-	464
SODA HOME - OHFA	3,233	-	-	-	-	3,233
SO-5 Assessor	8,912	4	-	-	-	8,916
SO-6 Assessor	13,232	2,920	-	-	853	15,299
SODA Park and Fair Grounds	2,008	-	-	-	-	2,008
CDBG Library Grant	1,177	-	-	-	-	1,177
Use Tax	324,302	154,780	-	-	180,497	298,585
Coal County Library Project Fund	139	-	-	-	-	139
County Sinking	45	-	-	-	-	45
Hazard Mitigation	2,500	-	-	-	-	2,500
CDBG Health Clinic	480	-	-	-	-	480
Emergency Management	26,416	51,527	-	-	31,645	46,298
CCFFA Fire	1,776	-	-	-	-	1,776
Local Emergency Planning	8,363	-	-	-	-	8,363
Drug Court Money	58,983	88,814	-	-	79,541	68,256
MD4 Cash Donation Health	4,118	-	3,500	-	2,245	5,373
CBRIF 105	852,644	201,780	-	-	647,144	407,280
911 Phone Collections	45,231	72,158	-	-	67,972	49,417
Lodging Tax	18,464	4,996	-	-	-	23,460
Combined Total - All County Funds	\$ 5,449,915	\$ 6,887,019	\$ 153,500	\$ 153,500	\$ 7,036,326	\$ 5,300,608

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, 2016**

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.

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.

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.

R-8 Solid Waste – accounts for trash collection fees received from the public and disbursement of funds for the disposal of household trash collected in the dumpsters located at the County's recycling center.

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.

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

**COAL COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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 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 U.S. 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 County 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.

**COAL COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.

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.

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

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

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.

Interfund Transfers

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

- \$150,000 from the County General Fund to the County Sales Tax fund for the repayment of a loan in accordance with 68 O.S. § 3021.
- \$3,500 from the County Health Department fund to the MD4 Cash Donation Health fund to correct an apportionment error from fiscal year 2015.

COAL COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 461,078	\$ 611,078	\$ 150,000
Less: Prior Year Outstanding Warrants	(73,777)	(73,777)	-
Less: Prior Year Encumbrances	(43,315)	(21,235)	22,080
Beginning Cash Balances, Budgetary Basis	<u>343,986</u>	<u>516,066</u>	<u>172,080</u>
Receipts:			
Ad Valorem Taxes	858,715	985,911	127,196
Charges for Services	84,757	67,941	(16,816)
Intergovernmental Revenues	157,981	151,748	(6,233)
Miscellaneous Revenues	135,856	116,219	(19,637)
Total Receipts, Budgetary Basis	<u>1,237,309</u>	<u>1,321,819</u>	<u>84,510</u>
Expenditures:			
County Sheriff	305,457	302,094	3,363
County Treasurer	86,612	86,512	100
County Commissioners	183,400	145,196	38,204
County Clerk	116,757	114,710	2,047
Court Clerk	129,274	128,602	672
County Assessor	102,812	102,392	420
Revaluation of Real Property	120,891	120,305	586
General Government	423,621	221,206	202,415
Excise Equalization Board	4,200	2,343	1,857
County Election Board	60,175	59,834	341
County Audit Budget Account	38,096	1,072	37,024
Free Fair Budget Account	10,000	9,729	271
Total Expenditures, Budgetary Basis	<u>1,581,295</u>	<u>1,293,995</u>	<u>287,300</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	543,890	<u>\$ 543,890</u>
Interfund Transfers:			
Interfund Transfer Out		<u>(150,000)</u>	
Net Interfund Transfers		<u>(150,000)</u>	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		99,082	
Add: Current Year Encumbrances		61,743	
Ending Cash Balance		<u>\$ 554,715</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, 2016

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 291,681	\$ 291,681	\$ -
Less: Prior Year Outstanding Warrants	(18,249)	(18,249)	-
Less: Prior Year Encumbrances	<u>(2,353)</u>	<u>(1,511)</u>	<u>842</u>
Beginning Cash Balances, Budgetary Basis	<u>271,079</u>	<u>271,921</u>	<u>842</u>
Receipts:			
Ad Valorem Taxes	214,890	246,720	31,830
Charges for Services	1,921	1,053	(868)
Intergovernmental Revenues	-	16	16
Miscellaneous Revenues	<u>-</u>	<u>109</u>	<u>109</u>
Total Receipts, Budgetary Basis	<u>216,811</u>	<u>247,898</u>	<u>31,087</u>
Expenditures:			
County Health Budget Account	<u>487,890</u>	<u>275,022</u>	<u>212,868</u>
Total Expenditures, Budgetary Basis	<u>487,890</u>	<u>275,022</u>	<u>212,868</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>244,797</u>	<u>\$ 244,797</u>
Interfund Transfers:			
Interfund Transfers Out		<u>(3,500)</u>	
Net Interfund Transfers		<u>(3,500)</u>	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		17,213	
Add: Current Year Outstanding Warrants		<u>2,632</u>	
Ending Cash Balance		<u>\$ 261,142</u>	

**COAL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016. 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 2016.

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 2016-001 – 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, preparing the deposit, and reconciling bank statements. The County Treasurer has implemented several mitigating controls. After evaluating the mitigating controls that have been implemented, the following weaknesses still exist:

- All employees issue receipts and have administrative rights to void/delete receipts. Effective April 2016, the ability to void receipts is limited to the County Treasurer. There is no documentation to indicate that voided receipts are being reviewed/approved by someone other than the preparer.

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

- All employees work from two (2) cash drawers.

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:

- Voided/deleted receipts should contain explanations and reflect evidence of a review with initials and dates. The review should be performed by someone other than the one performing the void.
- The County Treasurer should establish a separate cash drawer for each employee receiving cash.

**COAL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Management Response:

County Treasurer: As of April 2016, I am the only one who can void receipts. I will print a voided receipt report and have my first deputy review, sign and file it in the daily jacket. Being that I have only two people in my office, we have to do everything in case one of us is not available. We try our best to segregate duties, but at times we have to do it all. We try our best to review each other's work and initial everything. I only have room for two cash registers. If funds become available, I might try to get another one.

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, preparing deposits, and maintaining financial ledgers/reconciliations should be segregated.

Finding 2016-002 – 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 for all county funds.

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 monthly to the County Treasurer's general ledger. The reconciliation should be reviewed and approved by someone other than the preparer and documentation of the reconciliation should be maintained.

Management Response:

County Treasurer: The County Clerk and I are working together to reconcile the appropriation ledger to the general ledger.

County Clerk: The County Clerk's office will reconcile the appropriation ledger to the County Treasurer's general ledger on a monthly basis.

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

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; however, internal controls regarding the apportionment of sales tax collections should be strengthened.

FINDINGS AND RECOMMENDATIONS

Finding 2016-003 – Inadequate Internal Controls Over Sales Tax Collections

Condition: Upon inquiry and observation, and the review of documentation regarding the process of apportioning/appropriating sales tax collections, the following exception was noted:

- Calculations of the apportionments/appropriations of sales tax monies are not reviewed and approved by someone other than the preparer.

Cause of Condition: Policies and procedures have not been designed and implemented regarding the sales tax collections process to ensure adequate internal controls.

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

Recommendation: OSAI recommends the County implement a review process over the calculations for the sales tax apportionment/appropriation, which would include someone other than the preparer reviewing and approving the calculations for accuracy.

Management Response:

County Clerk: The County Treasurer prepares the calculations of the sales tax apportionment. The County Clerk will review and approve the calculations for accuracy.

County Treasurer: I will prepare the miscellaneous receipt and take it to the County Clerk and have her review it and sign off on my preparation of the money to the appropriate accounts.

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 sales tax calculations. To help ensure a proper accounting of funds, a recalculation of the apportionment and appropriation of sales tax should be performed and documented by someone other than the preparer.

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 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.

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: The County's internal controls do not provide reasonable assurance that expenditures, including payroll, were accurately reported in the accounting records.

The County's financial operations did not comply with 19 O.S. § 1505, which requires that disbursements be timely encumbered, properly supported, and charged to the appropriate fund and account.

FINDINGS AND RECOMMENDATIONS

Finding 2016-004 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

Condition: Upon inquiry and observation of the County's disbursement process, we noted that one employee performs both duties of approving the issuance and encumbrance of the purchase orders, while also certifying that the amount of the encumbrance has been entered against the designated appropriation accounts and is within the authorized available balance of said appropriations.

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

- Six (6) purchase orders were not timely encumbered.
- Two (2) purchase orders did not have adequate documentation (receiving reports) attached.

Additionally, an audit of five (5) cash vouchers reflected the following weakness:

- One (1) cash voucher claim was not signed or authorized by the County Clerk.

**COAL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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, or 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 risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions.

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

OSAI further recommends that all cash voucher claims be signed and authorized by the County Clerk or deputy.

Management Response:

County Clerk: Proper procedures will be implemented to ensure compliance with the disbursement process and to strengthen internal controls.

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

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

All Objectives:

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

Finding 2016-005 - Inadequate County-Wide Controls and Lack of Disaster Recovery Plans (Repeat Finding)

Condition: Through the process of gaining an understanding of the County's internal control structure, it was noted that county-wide controls regarding Risk Assessment and Monitoring have not been designed. In addition, the County Commissioners and the Court Clerk have not designed and implemented Disaster Recovery Plans.

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 greater risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds. Further, without a Disaster Recovery Plan these conditions could also result in the loss of data, the unreliability of data, and increase the risk that the County may not recover from an emergency and/or disaster.

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.

Additionally, the County Commissioners and Court Clerk should each prepare a Disaster Recovery Plan in order to maintain operations in the event of a disaster.

Management Response:

County Commissioner District 1 (BOCC Chairman): The eight elected officials will start meeting quarterly to assess and monitor risks within the County. District 1 and 2 have implemented a Disaster Recovery Plan and it is on file in the County Clerk's office.

County Commissioner District 2: A Disaster Recovery Plan has now been designed and implemented.

County Commissioner District 3: We are currently working on a Disaster Recovery Plan.

County Treasurer: All county officials will get together and hold quarterly meetings to discuss issues and we will also implement the County-Wide Internal Controls Checklist.

County Clerk: The County Clerk will work closely with the other departments to design procedures to identify and address risks.

Court Clerk: I have been in contact with the County Clerk and I am in the process of designing and implementing a Disaster Recovery Plan.

**COAL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 processes. Proper monitoring will ensure that controls continue to be adequate and function properly.

According to the standards of the Information Systems Audit and Control Association (CobiT, Deliver and Support 4), information services function management should ensure that a written Disaster Recovery Plan is documented and contains guidelines and instructions for the County to follow in the event of a disaster.

Other Item(s) Noted:

Although not considered significant to the audit objectives, we feel the following issue should be communicated to management.

Finding 2016-006 - Inadequate Internal Controls Over the Schedule of Expenditures of Federal Awards (SEFA)

Condition: The County has not designed and implemented formal internal controls for the reporting of its federal programs as required by 2 CFR 200.

**COAL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

During our review and reconciliation of the Schedule of Expenditures of Federal Awards (SEFA), as initially prepared by Coal County, we identified federal programs that were not listed accurately. Federal expenditures were understated by \$138,706.78.

The following misstatements were noted:

- The actual expenditures for Community Development Block Grants/State’s program and Non-Entitlement Grants in Hawaii (CDBG) CFDA 14.228, were \$95,018.28 and the County reported \$114,768.28. The County overstated the expenditures for CFDA 14.228, by \$19,750.00.
- The actual expenditures for Public Safety Partnership and Community Policing Grants (COPS) CFDA 16.710, were \$16,667.32 and the County reported \$0. The County understated the expenditures for CFDA 16.710, by \$16,667.32.
- The actual expenditures for Disaster Grants - Public Assistance (Presidentially Declared Disasters) CFDA 97.036, Disaster 4222 were \$163,147.97 and the County reported \$0. The County understated the expenditures for CFDA 97.036, Disaster 4222 by \$163,147.97.
- The actual expenditures for Emergency Management Performance Grants (EMPG) CFDA 97.042, were \$30,057.49 and the County reported \$51,416.00. The County overstated the expenditures for CFDA 97.042, by \$21,358.51.

Reported Total Expenditures of Federal Awards	\$166,184.28
Less: CDBG (CFDA 14.228)	(19,750.00)
Plus: COPS (CFDA 16.710)	16,667.32
Plus: Disaster 4222 (CFDA 97.036)	163,147.97
Less: EMPG (CFDA 97.042)	<u>(21,358.51)</u>
Actual Federal Expenditures of Federal Awards	<u>\$304,891.06</u>
 Original SEFA Understated by	 <u>\$138,706.78</u>

Cause of Condition: Policies and procedures have not been designed and implemented to ensure accurate reporting of expenditures for all federal awards.

Effect of Condition: This condition resulted in the erroneous reporting and a material misstatement of the County’s SEFA and could result in a material noncompliance with federal regulations.

Recommendation: OSAI recommends county officials and department heads gain an understanding of federal programs awarded to Coal County. Internal control procedures should be designed and implemented to ensure accurate reporting of expenditures on the SEFA and to ensure compliance with federal requirements.

Management Response:

County Commissioner District 1 (BOCC Chairman): The County will keep proper records of federal expenditures so that it can be reported to the County Clerk.

**COAL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

County Clerk: Coal County will implement policies for handling all federal grants awarded to the County and keep accurate records of the expenditures for the annual SEFA.

Criteria: 2 CFR § 200.303(a) *Internal Controls* reads as follows:

The non-Federal entity must:

Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

2 CFR § 200.508(b) *Auditee responsibilities* reads as follows:

The auditee must:

Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 Financial statements.

2 CFR § 200.510(b) *Financial statements* reads as follows:

Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. [...]

Further, accountability and stewardship should be overall goals in management’s accounting of federal funds. Internal controls should be designed to monitor compliance with laws and regulations pertaining to grant contracts.

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, 2016:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1, 19 O.S. § 178.2, 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).

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

December 6, 2018

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2016-007 – Inadequate Segregation of Duties Over the Court Fund and Court Clerk Revolving Fund Expenditure Processes (Repeat Finding)

Condition: Upon inquiry and observation of the Court Fund and Court Clerk Revolving Fund expenditure processes, we noted the following weaknesses regarding internal controls related to segregation of duties:

- Court Fund - The Court Clerk initiates and prepares claims/vouchers, attaches supporting documentation, and certifies that goods/services are received.
- Court Clerk Revolving Fund - The Court Clerk performs the duties of both requisitioning and receiving goods/services.

In addition, the Court Clerk solely performs all duties associated with preparing the Court Fund and Revolving Fund quarterly reports and reconciles to the County Treasurer without a secondary review.

Cause of Condition: Policies and procedures have not been designed and implemented to adequately segregate the duties of the expenditure processes within the office of the Court Clerk.

Effect of Condition: 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, undetected errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: OSAI recommends that management be aware of these conditions and realize that a concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. OSAI recommends that procedures be developed to separate key functions of the expenditure process of the Court Fund and Court Clerk Revolving Fund. In the event that a 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.

Management Response:

Court Clerk: Having only been in office for one year, I have not segregated duties to anyone else in my office. I wanted to learn procedures myself before delegating duties to deputies. As I learn the job and procedures, I will begin to put some of the above mentioned duties on my deputies.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

**COAL COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding 2016-008 - Inadequate Internal Controls and Noncompliance Over Fixed Assets and Consumable Inventories (Repeat Finding)

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

- The offices of the Court Clerk, County Sheriff, District 1, District 2, District 3, Emergency Management, Election Board, OSU Extension and Solid Waste did not perform and document an annual physical review of all fixed assets.
- The County Rural Fire Departments (Cairo, Centrahoma, Clarita, Coalgate, Lehigh, Olney, Pine-Parker, Tupelo) and Senior Citizens Centers (Coalgate, Clarita, Lehigh, Tupelo) do not maintain and file inventory records with the County Clerk.

In addition, upon inquiry and observation of consumable inventory items the following weakness was noted:

- Districts 1, 2 and 3 do not maintain accurate/complete records of consumable items.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with the state statutes regarding maintaining fixed assets. Additionally, procedures have not been designed and implemented to provide for accurate fixed assets and consumable items inventory records.

Effect of Condition: These conditions resulted in noncompliance with state statutes. When fixed assets are not monitored, opportunities for misuse or loss of equipment can occur. Additionally, when consumable inventories are not monitored on a regular basis, opportunities for misuse or theft of items are more likely to occur.

Recommendation: OSAI recommends that the County perform and document a physical inventory review of fixed assets. A copy of the physical inventory review should be filed with the County Clerk. OSAI also recommends that the County perform and document a consumable inventory review on a regular basis. The review should be initialed and dated by the employee performing the physical review and retained to show the design and implementation of internal controls by the County Commissioners.

Management Response:

County Commissioner District 1: My secretary is now up to date with both fixed assets and consumable inventory books.

County Commissioner District 2: I was not in office at this time; however, we have currently performed and documented an annual physical review of all fixed assets and we now maintain a consumable items inventory records book.

County Commissioner District 3: We are currently keeping an inventory on all fixed assets and consumable items.

**COAL COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Court Clerk: I am in the process of completing an annual review of all fixed assets.

County Sheriff: We are currently in the process of completing our annual review of fixed assets.

Emergency Management: I was not the Emergency Management Director during this time period and did not have access to this information. I plan to update my inventory records and have the information available by the end of the year.

OSU Extension: In the future we will provide the County with an inventory verification report.

Election Board Secretary: I am in the process of updating inventory through 2018.

Criteria: 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 states in part, "The board of county commissioners in each county of this state shall take, or cause to be taken, an inventory of all working tools, apparatus, machinery and equipment belonging to the county or leased or otherwise let to it or to any department thereof, other than that which is affixed to and made a part of lands and buildings, the cost of which as to each complete working unit thereof is more than Five Hundred Dollars (\$500.00), and thereafter maintain or cause to be maintained a continuous inventory record thereof and of like tools, apparatus, machinery and equipment purchased, leased or otherwise coming into the custody of the county or of any office, board, department, commission or any or either thereof, and the disposition thereof whether sold, exchanged, leased or let where authorized by statute, junked, strayed or stolen, and annually thereafter..."

Title 19 O.S. § 178.3 A. states, "The county clerk shall be custodian and repository of all inventory records, files and reports."

Title 19 O.S. § 1504 A. states in part, "...The receiving officer shall also maintain a record of all such items received, disbursed, stored and consumed by the department."



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