



MUSKOGEE COUNTY

Financial Report

For the fiscal year ended June 30, 2019

Cindy Byrd, CPA
State Auditor & Inspector

**MUSKOGEE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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OKLAHOMA
Office of the State Auditor & Inspector

Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

June 30, 2022

TO THE CITIZENS OF
MUSKOGEE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Muskogee County, Oklahoma for the fiscal year ended June 30, 2019. The audit was conducted in accordance with 19 O.S. § 171.

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

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

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

Sincerely,

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

**MUSKOGEE COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Board of County Commissioners

District 1 – Ken Doke
District 2 – Stephen Wright
District 3 – Kenny Payne

County Assessor

Ron Dean

County Clerk

Dianna Cope

County Sheriff

Rob Frazier

County Treasurer

Kelly Garrett

Court Clerk

Paula Sexton

District Attorney

Orvil Loge

**MUSKOGEE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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FINANCIAL SECTION



Independent Auditor's Report

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

Report on the Financial Statement

We have audited the total—all county funds on the accompanying regulatory basis Statement of Receipts, Disbursements, and Changes in Cash Balances of Muskogee County, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statement, which collectively comprise the County's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the regulatory basis of accounting described in Note 1, and for determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statement is prepared by Muskogee County using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Muskogee County as of June 30, 2019, or changes in financial position for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the total receipts, disbursements, and changes in cash balances for all county funds of Muskogee County, as of and for the year ended June 30, 2019, in accordance with the basis of accounting described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the total of all county funds on the financial statement. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statement.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2022, on our consideration of Muskogee County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County’s internal control over financial reporting or on compliance. That report is an integral part

of an audit performed in accordance with *Government Auditing Standards* in considering Muskogee County's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cindy Byrd". The signature is written in a cursive, flowing style.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

June 21, 2022

REGULATORY BASIS FINANCIAL STATEMENT

MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Beginning Cash Balances July 1, 2018	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2019
County Funds:						
County General	\$ 3,153,984	\$ 6,711,022	\$ 125	\$ 10,000	\$ 5,949,691	\$ 3,905,440
Highway Cash	7,018,093	3,580,134	614,480	90	2,886,650	8,325,967
County Health	3,068,076	1,608,886	-	-	1,295,992	3,380,970
Resale Property	1,194,406	552,645	-	5,600	424,777	1,316,674
County Sinking	99,129	10,352	-	-	-	109,481
General Obligation Bonds	11,711	110	-	-	-	11,821
GO-Bonds-BOK Servicing Agreement	906	-	-	-	-	906
Sheriff Service Fee Cash Fund	113,105	355,880	5,600	-	292,913	181,672
Muskogee City/County Detention-Sheriff's Department	500,288	1,590,405	-	-	1,844,892	245,801
County Use Tax	2,457,793	631,799	-	-	80,354	3,009,238
County Sales Tax/Sheriff	532,361	1,941,012	-	-	1,778,262	695,111
County Bridge and Road Improvement	3,528,084	839,724	375,000	436,979	2,265,058	2,040,771
Muskogee County Sales Tax/Highway	2,826,241	2,097,802	136,979	-	1,800,067	3,260,955
Firefighters Cash/Sales Tax	2,450,618	1,218,250	-	125	953,446	2,715,297
Rainy Day Fund	2,244,849	-	-	-	49,984	2,194,865
Emergency Management Performance Grant/ST	16,979	43,758	-	-	57,815	2,922
Sheriff Reward Revolving	14,105	27,691	-	-	27,425	14,371
Muskogee City/County Detention Grant 2	71	-	-	-	-	71
County Clerk Lien Cash Fund	33,204	20,671	-	-	7,245	46,630
Treasurer Mortgage Certification Fee	5,108	9,685	-	-	9,929	4,864
Sheriff Patrol Cash Fund	33,501	-	10,000	-	7,438	36,063
County Assessor Revolving Fund	16,389	4,572	90	-	3,418	17,633
Sheriff Commissary Fund	123,999	545,526	-	-	435,727	233,798
County Clerk Records Management Preservation Fund	78,517	68,195	-	-	11,390	135,322
Sheriff Drug Forfeiture	18,721	12,737	-	-	261	31,197
Sheriff Training	1,548	-	-	-	690	858
Local Law Enforcement Grant	719	-	-	-	719	-
Project Safe Neighborhood Grant	29	-	-	-	-	29
Homeland Security Grant 1 & 2	115	-	-	-	-	115
Sheriff COPS Grant	119	-	-	-	-	119
Justice Assistance Grant	7	35,548	-	-	16,358	19,197
Muskogee County K-9	4,549	-	-	-	-	4,549
Capital Improvement Plan	7,336	-	-	-	-	7,336
Emergency Management Grant Fund	5,146	-	-	-	-	5,146
Cash Drawer	530	-	-	-	-	530
County Water Improvement District 1	1,410	-	-	-	-	1,410
County Clerk Fire Department Reimbursement	26,877	7,800	-	-	12,447	22,230
Flood Plain Fund	2,618	-	-	-	-	2,618
Juvenile Drug Court	3,250	39,000	-	-	39,000	3,250
County Economic Development Fund	10,641	9,627	-	-	-	20,268
Sales Tax (STRCF)	534,125	-	-	-	-	534,125
CDBG-W/S	266,916	22,243	-	-	289,159	-
Safe Oklahoma Grant	20,941	62,774	-	-	52,213	31,502
Muskogee Fair Account	-	6,000	-	-	3,000	3,000
Total - All County Funds	\$ 30,427,114	\$ 22,053,848	\$ 1,142,274	\$ 452,794	\$ 20,596,320	\$ 32,574,122

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

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

B. Fund Accounting

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

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

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

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

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

Resale Property – accounts for the collection of revenues from the interest and penalties on delinquent ad valorem taxes. Disbursed in accordance with state statute.

County Sinking – accounts for the payments of interest and principal on long-term bonded debt and civil judgments. Debt service receipts are derived generally from a special ad valorem tax

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

levy and from interest earned on investments on cash not immediately required for debt service payments.

General Obligation Bonds – accounts for the payment of interest and principal on the matured portion of the Muskogee County General Obligation Limited Tax Bonds that are administered by the County. Receipts are derived from industrial tenant rental payments.

GO Bonds-BOK Servicing Agreement – accounts for the payment of interest and principal on the matured portion of the Muskogee County General Obligation Limited Tax Bonds that are administered by the Bank of Oklahoma. Receipts are derived from industrial tenant rental payments.

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

Muskogee City/County Detention-Sheriff's Department – accounts for revenues from law enforcement entities for the housing of prisoners. Disbursements are for the jail and any surplus in the revolving fund for administering expenses for salaries, training, equipment, travel, or for capital expenditures.

County Use Tax – accounts for revenues from the Oklahoma Tax Commission. Disbursements are at the discretion of the Board of County Commissioners.

County Sales Tax/Sheriff – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax ballot.

County Bridge and Road Improvement – accounts for monies received from Oklahoma Department of Transportation as imposed by SB 2173. Monies are earmarked for bridges, roads, and certain improvements for roads.

Muskogee County Sales Tax/Highway – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax ballot.

Firefighters Cash/Sales Tax – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax ballot.

Rainy Day Fund – accounts for collections from the sale of County property and disbursed for the operation of the County.

Emergency Management Performance Grant/ST – accounts for Emergency Management Performance Grants received from the U.S. Department of Homeland Security and disbursed for Emergency Management Assistance expenses.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Sheriff Reward Revolving – accounts for the collection of fines and restitution from littering and the disbursements are restricted for the prevention of littering.

Muskogee City/County Detention Grant 2 – accounts for Community Oriented Policing Services (COPS) grant monies received and disbursed for payroll of a school resource officer.

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

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

Sheriff Patrol Cash Fund – accounts for revenues from donations for reserve officers. Disbursements are for reserve officer needs.

County Assessor Revolving Fund – accounts for revenues from fees collected by the County Assessor. Disbursements are to maintain electronic databases and geographic information systems in the Assessor's office.

Sheriff Commissary Fund – accounts for the collection of fees transferred from the inmate trust account for commissary items and disbursement of funds as restricted by state statute.

County Clerk Records Management Preservation Fund – accounts for revenues from a fee charged by the County Clerk for recording instruments and interest earned on invested funds. Disbursements are for the maintenance and preservation of public records.

Sheriff Drug Forfeiture – accounts for revenues from monies seized and forfeited to the Sheriff's office. Disbursements are for the maintenance and operation of the Sheriff's drug task force.

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

Local Law Enforcement Grant – accounts for revenues from a federal grant. Disbursements are for supplemental deputies.

Project Safe Neighborhood Grant – accounts for grant monies received and disbursed to support existing programs in law enforcement targeted at gun violence and drug abuse.

Homeland Security Grant 1 & 2 – accounts for revenues from a federal grant. Disbursements are for additional patrols by the Sheriff's office.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Sheriff COPS Grant – accounts for revenues from a federal grant. Disbursements are for payroll of Sheriff's officers.

Justice Assistance Grant – revenues are from a federal grant. Disbursements are for Sheriff patrol cars.

Muskogee County K-9 – accounts for revenues strictly from donations from individual citizens. Disbursements are for canine services.

Capital Improvement Plan – accounts for Community Development Block Grants received from the U.S. Department of Commerce and disbursed as restricted by the grant agreement.

Emergency Management Grant Fund – accounts for Emergency Management Performance Grants received from the U.S. Department of Homeland Security and disbursed as restricted by the grant agreement.

Cash Drawer – accounts for cash held by the various county offices for change funds.

County Water Improvement District 1 – accounts for revenues from a grant received for Rural Water District 1 and disbursed for the improvement of the water district.

County Clerk Fire Department Reimbursement – accounts for revenues from the Fire Fighters Sales Tax Board. Disbursements are for the payroll of a County Clerk employee that handles the administrations of the fire departments' disbursements.

Flood Plain Fund – accounts for fees collected for flood plain certifications and disbursed for flood plain travel and maintenance and operation.

Juvenile Drug Court – accounts for monies received from the Oklahoma Department of Mental Health and Substance Abuse Services to be expended for the maintenance and operation of the Juvenile Drug Court.

County Economic Development Fund – accounts for the collection of lodging tax revenue and the disbursement of funds as restricted by the lodging tax resolution.

Sales Tax (STRCF) – accounts for sales tax monies collected for the maintenance of the Muskogee County Courthouse and County Services Building.

CDBG-W/S – accounts for Community Development Block Grants received from the U.S. Department of Commerce and disbursed for administration fees for Rural Water District 6.

Safe Oklahoma Grant – accounts for monies received from the Oklahoma Attorney General and disbursed for the Sheriff's office to respond to violent crime in the community.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Muskogee Fair Account – accounts for monies received from donations and grants. Disbursements are for expenses relating to the County Fair.

C. Basis of Accounting

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

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

D. Budget

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

E. Cash and Investments

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

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County’s deposits. The amount of collateral securities to be

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

The County Treasurer has not been authorized by the County's governing board to make investments. Allowable investments are outlined in statutes 62 O.S. § 348.1 and § 348.3.

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured. All investments as classified by state statute are nonnegotiable certificates of deposit. Nonnegotiable certificates of deposit are not subject to interest rate risk or credit risk.

2. Ad Valorem Tax

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

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. The County Treasurer, according to the law, shall give notice of delinquent taxes and special assessments by publication once a week for two consecutive weeks at any time after April 1, but prior to the end of September following the year the taxes were first due and payable. Unpaid real property taxes become a lien upon said property after the treasurer has perfected the lien by public notice.

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

3. Other Information

A. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

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

B. Other Post Employment Benefits (OPEB)

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

C. Contingent Liabilities

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

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

D. Sales Tax

On November 8, 2005, the voters of Muskogee County approved a permanent excise tax of fifteen hundredths of one percent (.0015). The revenue from the sales tax is for the purpose of providing funds for the fire departments of Muskogee County, including, but not limited to: purchase of equipment, general operation and maintenance, training, construction of new buildings or improvements to existing buildings, and payment of existing or future loans.

Five percent (5%) of the fifteen hundredths percent (.0015) is designated for a newly formed Board with one member elected and representing each of the following Muskogee County fire departments: Muskogee, Boynton, Braggs, Brushy Mountain, Buckhorn, Council Hill, Fort Gibson, Gooseneck Bend, Haskell, Keefeton, Mountain View, Oktaha, Summit, Taft, Wainwright, Warner, Webber Falls, and Porum. These funds will be used for such other fire protection services as may be deemed necessary by the Board of County Commissioners.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Ninety-five percent (95%) of the fifteen hundredths percent (.0015) shall be divided equally between the above-mentioned eighteen (18) fire departments to construct new fire stations or improve existing fire stations, purchase equipment and defray training and fire education costs, purchase firefighting and other emergency response vehicles and equipment and for the general maintenance and operations, with the exception of salaries and wages, for which the tax proceeds are not intended. These funds are accounted for in the Firefighters Cash/Sales Tax fund.

On July 10, 2007, the voters of Muskogee County approved an excise tax for Muskogee County on all goods and products authorized by law, in the amount of one half of one cent on the dollar (\$0.005). The tax is to commence January 1, 2008 and to terminate December 31, 2018. The revenue from the sales tax is for the purpose of improving county services as follows: 50% of the monies to go to the county roads and bridges and 50% of the monies to go to Homeland Security, courthouse security, and county law enforcement. These funds are accounted for in the Muskogee County Sales Tax/Highway and County Sales Tax/Sheriff funds.

On June 13, 2017, the voters of Muskogee County approved renewing an excise tax for Muskogee County on all goods and products authorized by law, in the amount of one half of one cent on the dollar (\$0.005). The tax is to commence January 1, 2019 and to terminate December 31, 2028. The revenue from the sales tax is for the purpose of improving county services as follows: 50% of the monies to go to the county roads and bridges and 50% of the monies to go to Homeland Security, courthouse security, and county law enforcement. These funds are accounted for in the Muskogee County Sales Tax/Highway and County Sales Tax/Sheriff funds.

E. Tax Abatements

The County is subject to ad valorem tax abatements granted by the State of Oklahoma in accordance with the Oklahoma Constitution, Article 10 Section 6B for qualifying manufacturing concern—ad valorem tax exemption.

Under this program, a five-year ad valorem tax exemption exempts all real and personal property that is necessary for the manufacturing of a product and facilities engaged in research and development which meet the requirements set by the Oklahoma Constitution and statutes. Under Title 68 O.S. § 2902, in exchange for the five-year exemption, qualifying manufacturing concerns must meet certain minimum investment requirements for construction, acquisition, or expansion of a manufacturing facility. In addition, there are general minimum payroll requirements that must be met and the qualifying manufacturing concern must offer basic health benefit plans to all full-time employees within 180 days of employment.

The County had \$233,564 of ad valorem taxes abated under this program for the fiscal year ended June 30, 2019.

The State has an Ad Valorem Reimbursement Fund in accordance with Title 62 O.S. § 193 that is used to reimburse the County for the loss of revenue. Monies apportioned to this fund by the State also may be transferred to other state funds or otherwise expended as directed by the Legislature.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

In the event monies apportioned to the Fund are insufficient to pay all claims for reimbursement, claims for reimbursement for loss of revenue due to manufacturing exemptions of ad valorem taxes shall be paid first, and any remaining funds shall be distributed proportionally among the counties making claims for reimbursement for loss of revenue for school district exemptions.

F. Interfund Transfers

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

- \$10,000 was transferred from the County General fund to the Sheriff Patrol Cash Fund to reimburse for Sheriff patrol.
- \$125 was transferred from Firefighters Cash/Sales Tax fund to the County General fund to reimburse bid publication.
- \$614,480 was transferred from the Emergency Transportation Revolving fund, a trust and agency fund, to the Highway Cash fund as a loan used for bridge and road projects in the County.
- \$90 was transferred from the Highway Cash fund to the County Assessor Revolving Fund for services provided.
- \$5,600 was transferred from the Resale Property fund to the Sheriff Service Fee Cash Fund for serving delinquent tax notices.
- \$375,000 was transferred from the Emergency Transportation Revolving fund, a trust and agency fund, to the County Bridge and Road Improvement fund as a loan used for bridge and road projects in the County.
- \$300,000 was transferred from the County Bridge and Road Improvement fund to the Emergency Transportation Revolving fund, a trust and agency fund, for the repayment of a loan used for bridge and road projects in the County.
- \$136,979 was transferred from the County Bridge and Road Improvement fund to the Muskogee County Sales Tax/Highway fund for reimbursement of expenditures.

SUPPLEMENTARY INFORMATION

MUSKOGEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL—
BUDGETARY BASIS—GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund		
	Budget	Actual	Variance
District Attorney - County	\$ 7,252	\$ 5,448	\$ 1,804
County Sheriff	525,000	378,329	146,671
County Treasurer	173,400	167,866	5,534
County Commissioners	292,033	260,723	31,310
County Commissioners O.S.U. Extension	122,500	78,380	44,120
County Clerk	409,000	404,604	4,396
Court Clerk	412,947	397,235	15,712
County Assessor	395,000	376,711	18,289
Visual Inspection	442,700	433,853	8,847
District Court	42,398	42,372	26
General Government	4,296,036	1,265,765	3,030,271
Excise-Equalization Board	15,200	4,023	11,177
County Election Expense	224,721	208,018	16,703
County Purchasing Agent	219,767	209,795	9,972
Charity	45,000	45,000	-
County Engineer: Flood Plain	4,744	4,744	-
Emergency Management	149,264	128,349	20,915
Soil Conservation District	1,500	1,471	29
Jail	254,000	221,799	32,201
School Records Clerk	31,500	30,531	969
Highway Budget Account	1,411,967	1,397,597	14,370
County Audit Budget	105,659	-	105,659
Free Fair Budget Account	1,200	1,200	-
Total Expenditures, Budgetary Basis	<u>\$ 9,582,788</u>	<u>\$ 6,063,813</u>	<u>\$ 3,518,975</u>

MUSKOGEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL—
BUDGETARY BASIS—HEALTH FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Health Fund		
	Budget	Actual	Variance
Health and Welfare	\$ 4,144,623	\$ 1,309,584	\$ 2,835,039
Total Expenditures, Budgetary Basis	<u>\$ 4,144,623</u>	<u>\$ 1,309,584</u>	<u>\$ 2,835,039</u>

**MUSKOGEE COUNTY, OKLAHOMA
NOTE TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

1. Budgetary Schedules

The Comparative Schedules of Expenditures—Budget and Actual—Budgetary Basis for the General Fund and the Health Fund present comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Statement of Receipts, Disbursements, and Changes in Cash Balances because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in these funds. At the end of the year unencumbered appropriations lapse.

INTERNAL CONTROL AND COMPLIANCE SECTION



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

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the total—all county funds of the accompanying Statement of Receipts, Disbursements, and Changes in Cash Balances of Muskogee County, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statement, which collectively comprise Muskogee County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated June 21, 2022.

Our report included an adverse opinion on the financial statement because the statement is prepared using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County as of and for the year ended June 30, 2019, on the basis of accounting prescribed by Oklahoma state law, described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Muskogee County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Muskogee County's internal control. Accordingly, we do not express an opinion on the effectiveness of Muskogee County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2019-001, 2019-010, 2019-011, 2019-012, and 2019-013.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: 2019-006 and 2019-014.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muskogee County's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2019-011 and 2019-013.

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

Muskogee County's Response to Findings

Muskogee County's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Muskogee County's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

June 21, 2022

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION 1—Findings related to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Finding 2019-001 – Lack of County-Wide Internal Controls (Repeat Finding 2008-022, 2009-021, 2010-023, 2011-001, 2012-001, 2013-001, 2014-001, 2015-001, 2016-001, 2017-001, 2018-001)

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.

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

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

Recommendation: The Oklahoma State Auditor & Inspector’s Office (OSAI) recommends that the County design and implement a system of county-wide procedures to identify and address risks related to financial reporting and to ensure that information is communicated effectively. OSAI also recommends that the County design and implement 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:

Chairman of the Board of County Commissioners: I did not take office until January 2021 but will review the finding and take necessary action as needed.

Current County Clerk: This occurred prior to my administration taking office. However, when brought to the attention of the County in 2019, two meetings were held. COVID did cause meetings to decrease. I took office on January 4, 2021. This has been corrected. Risk Management meetings have been held with county officials since taking office and we are scheduled to meet each quarter.

Current County Treasurer: This occurred prior to the current administration taking office and has been corrected.

Criteria: The United States Government Accountability Office’s *Standards for Internal Control in the Federal Government* (2014 version) aided in guiding our assessments and conclusion. Although this publication (GAO Standards) addresses controls in the federal government, this criterion can be treated as best practices and may be applied as a framework for an internal control system for state, local, and quasi-governmental entities.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

The GAO Standards – Section 1 – Fundamental Concepts of Internal Controls – OV1.01 states in part:

Definition of Internal Controls

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

Additionally, GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.04 states in part:

Components, Principles, and Attributes

Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

Finding 2019-006 – Lack of Internal Controls Over the Collection, Apportionment, and Cash Balances Processes of the County Treasurer (Repeat Finding 2011-004, 2012-004, 2013-003, 2014-003, 2015-003, 2016-006, 2017-007, 2018-007)

Condition: During our review of the County's collection, apportionment, and cash balances processes, the following was noted:

- The County Treasurer's office is not signing the top portion of the form 308 certifying the amount of cash on hand available for appropriation prior to sending them to the County Clerk.
- Not all start up cash is counted (bundles of startup cash were not verified for accuracy).
- There is no indication of review of bank deposits to ensure accuracy.
- The bank deposits are not counted by a second person prior to taking to the bank.
- One employee has the ability to issue receipts, void receipts, prepare the daily report, prepare the monthly report, perform bank reconciliations, review the bank deposit prior to it being taken to the bank, prepare the monthly apportionments.
- The calculations of sales tax collections performed and apportioned by the County Treasurer are not reviewed or approved by someone other than the preparer.

Cause of Condition: Policies and procedures have not been designed and implemented to separate key functions and processes among various employees in the office, to have levels of review over the processes performed, and to ensure accurate and proper accounting of funds.

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

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Recommendation: OSAI recommends designing and implementing internal controls that are critical functions of the office and having management review and approval of accounting functions.

Management Response:

Current County Treasurer: This occurred prior to this administration taking office and is being corrected.

Criteria: The GAO Standards – Principle 10 – Design Control Activities – 10.03 states in part:

Segregation of Duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principle 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

Finding 2019-010 – Reconciliation of Appropriation Ledger to General Ledger (Repeat Finding – 2011-016, 2012-011, 2013-008, 2014-009, 2015-008, 2016-015, 2017-011, 2018-011)

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 to ensure the reconciliation of the County Clerk’s appropriation ledger to the County Treasurer’s general ledger.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

Recommendation: OSAI recommends management take steps to ensure reconciliations are performed between the funds presented on the County Clerk's appropriation ledger and the County Treasurer's general ledger monthly and are accurate. Documentation of this reconciliation should be reviewed and approved by someone other than the preparer.

Management Response:

Current County Clerk: This occurred prior to this administration taking office on January 4, 2021 and has been corrected.

Current County Treasurer: This occurred prior to this administration taking office and is being corrected.

Criteria: The GAO Standards - Principle 16 – Performance Monitoring Activities: 16.05 states in part:

Internal Control System Monitoring

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations and other routine actions.

Finding 2019-011 – Lack of Internal Controls and Noncompliance Over the Disbursement Process

Condition: Upon inquiry of county personnel, observation of the County's disbursement process, and testwork performed, the following was noted:

- Segregation of duties over cash vouchers: One employee assigns cash voucher number, reviews claims for accuracy, and signs the cash voucher claims.
- Voided warrants are not marked as voided and retained.
- Officials or their designee are not always required to sign the warrant register when picking up warrants from the County Clerk's office.
- Purchasing and payroll computers are linked together and all employees have access to make changes within the payroll system.

Of the thirty-nine (39) disbursements tested, we noted the following exceptions:

- Ten (10) were not properly reviewed and/or authorized.
- One (1) was not made for the appropriate amount.
- Seven (7) did not have proper supporting documentation.
- Two (2) were not timely encumbered.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Cause of Condition: Policies and procedures have not been designed and implemented with regard to the segregation of duties and/or compensating controls of the disbursement process. Policies and procedures have not been designed and implemented to ensure compliance with state statutes.

Effect of Condition: These conditions resulted in noncompliance with state statutes and could result in unrecorded transactions, misstated financial records, 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. Additionally, voided warrants should be marked as void and retained and the warrant register signed by anyone picking up warrants.

Furthermore, OSAI recommends that the County adhere to state purchasing guidelines. Purchase orders should be encumbered before goods or services are ordered, invoices and other supporting documentation should be reviewed for accuracy and attached, payroll and purchase orders should be properly reviewed and authorized. Timesheets should be signed by the employee and the official.

Management Response:

Current County Clerk: This occurred prior to this administration taking office on January 4, 2021 and has since been corrected.

Criteria: The GAO Standards – Section 2 – Objectives of an Entity – OV2.23 states in part:

Compliance Objectives

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.

The GAO Standards – Principle 10 – Design Control Activities – 10.03 states in part:

Segregation of Duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Effective internal controls require that management properly implement procedures to ensure that purchases comply with 19 O.S. § 1505 and 62 O.S. § 310.8.

Finding 2019-012 – Lack of Segregation of Duties Over the Payroll Process (Repeat Finding – 2016-013, 2017-013, 2018-013)

Condition: Upon inquiry and observation of the County’s payroll process, it was noted that the County Clerk does not have an adequate segregation of duties to ensure that duties assigned to individuals are done so in a manner that would not allow one individual to control both the recording function and the procedures relative to processing a transaction.

Furthermore, payroll changes entered into the computer system are not reviewed by someone other than the preparer.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate segregation of duties in the County Clerk’s office with regard to 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 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 process and/or critical functions of the office and having management review and approval of accounting functions.

Also, OSAI recommends that all payroll and payroll changes entered into the computer system be reviewed and evidenced with initials and date by someone other than the preparer.

Management Response:

Current County Clerk: This occurred prior to this administration taking office on January 4, 2021 and has since been corrected.

Criteria: The GAO Standards – Principle 10 – Design Control Activities – 10.03 states in part:

Segregation of Duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Additionally, Principle 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

Finding 2019-013 – Lack of Internal Controls and Noncompliance Over Investments

Condition: Upon inquiry of County personnel, it was noted that there was not an investment policy approved by the Board of County Commissioners to authorize the County Treasurer to make investments for fiscal year 2019.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with state statute.

Effect of Condition: These conditions resulted in noncompliance with state statute and could result in inaccurate records, incomplete information, or misappropriation of assets.

Recommendation: OSAI recommends the Treasurer prepare and present to the Board of County Commissioners an annual investment resolution for their approval at the beginning of each new fiscal reporting period in accordance with 62 O.S. § 348.1.

Management Response:

Current County Treasurer: This occurred prior to this administration taking office and is being corrected.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to ensure the County is in compliance with applicable state statutes.

Title 62 O.S. § 348.1(A) states in part, “Except as otherwise provided for by law, a county treasurer, when authorized by the board of county commissioners by a written investment policy,

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

ordinance or resolution or the treasurer of any city or town, when authorized by the appropriate governing body by a written investment policy, ordinance or resolution, shall invest monies in the custody of the treasurer in...”

Finding 2019-014 – Lack of Internal Controls Over Bank Reconciliations and Investments

Condition: Upon inquiry of County personnel, observation, and review of documents regarding bank reconciliations and investments, it was noted that bank reconciliations are not reviewed and approved by someone other than the preparer. Additionally, while re-performing the June 30 bank reconciliations and reconciling investments back to the general ledger, the following was noted:

- A County Clerk Records Management Preservation certificate of deposit (CD) in the amount of \$31,398 was listed on the general ledger. This CD was redeemed on October 12, 2017.
- A CD in the amount of \$140,179 was listed on the general ledger. This CD was redeemed on March 28, 2019.
- A variance of \$425 between CD 8815 and the general ledger.
- A variance of \$11,211 between CD 60010634 and the general ledger.
- A variance of \$15,375 between CD 8272 and the general ledger.
- A variance of \$6,589 between CDARS 1020075941 and the general ledger.

Cause of Condition: Policies and procedures have not been designed and implemented to have levels of review over the processes performed, and to ensure accurate and proper accounting of funds.

Effect of Condition: These conditions resulted in unidentified variances and could result in unrecorded transactions, misstated financial reports, inaccurate records, incomplete information, or misappropriation of assets.

Recommendation: OSAI recommends designing and implementing internal controls that are critical functions of the office and having management review and approval of accounting functions. OSAI recommends that bank reconciliations be performed monthly on all accounts, all reconciling items be identified and accurate and the reconciliations be reviewed and approved by someone other than the preparer.

Management Response:

Current County Treasurer: This occurred prior to the current administration taking office and is being corrected.

Criteria: The GAO Standards 10.03 states in part:

Appropriate documentation of transactions and internal control

Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

An entity's internal control is flexible to allow management to tailor control activities to meet the entity's special needs. The specific control activities used by a given entity may be different from those used by others based on a number of factors. These factors could include specific threats the entity faces and risks it incurs; differences in objectives; managerial judgment; size and complexity of the entity; operational environment; sensitivity and value of data; and requirements for system reliability, availability, and performance.

Accurate and timely recording of transactions

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

SECTION 2—This section contains certain matters not required to be reported in accordance with *Government Auditing Standards*. However, we believe these matters are significant enough to bring to management's attention. We recommend that management consider these matters and take appropriate corrective action.

Finding 2019-015 – Lack of Internal Controls Over the Schedule of Expenditures of Federal Awards (SEFA) (Repeat Finding 2007-023, 2008-018, 2009-020, 2010-019, 2016-022, 2017-014, 2018-014)

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

During our review and reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) as initially prepared by the County, the following misstatements were noted:

- The actual expenditures for Flood Control Projects, CFDA 12.106, were \$41,268 and the County reported \$0.
- The actual expenditures for Payments in Lieu of Taxes, CFDA 12.112, were \$60,976 and the County reported \$0.
- The actual expenditures for the Emergency Management Performance Grants, CFDA 97.042, were \$63,356 and the County reported \$57,815.

Reported Total Expenditures of Federal Award	\$364,051
Add: Flood Control Projects (CFDA 12.106)	41,268
Add: Payments in Lieu of Taxes (CFDA 12.112)	60,976

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
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Add: Emergency Management Performance Grants (CFDA 97.042) 5,541

Actual Federal Expenditures of Federal Awards \$471,836

Original SEFA understated by \$ 107,785

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 inaccuracy in the recording of the federal expenditures on the SEFA.

Recommendation: OSAI recommends county officials and department heads gain an understanding of federal programs awarded to Muskogee 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:

Chairman of the Board of County Commissioners: I did not take office until January 2021 but will review the finding and take necessary action as needed.

Current County Clerk: This occurred prior to this administration taking office on January 4, 2021, I have reviewed this issue and it has been corrected.

Current County Treasurer: This occurred prior to this administration taking office and is being corrected.

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, in part, 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

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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 are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, an accurate record of federal expenditures should be maintained.

Finding 2019-016 – Lack of Internal Controls and Noncompliance Over the Inmate Trust Fund Checking Account and Sheriff Commissary Fund

Condition: An audit of the Inmate Trust Fund Checking Account and Sheriff Commissary Fund reflected the following:

- Deposits are not made daily.
- Inmate Trust Fund Checking Account bank reconciliations are not being performed in their entirety. The jail is not maintaining documentation to adequately support the reconciliation.
- The Sheriff's Annual Commissary Report to the Board of County Commissioners is not accurately completed.
- A reconciliation of the number of e-cigarettes in stock to the inventory log was not performed.

Cause of Condition: Policies and procedures have not been designed to ensure financial transactions regarding the Inmate Trust Fund Checking Account and Sheriff Commissary Fund are made in compliance with state statutes.

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

Recommendation: OSAI recommends the following:

- All funds received should be deposited to the Inmate Trust Fund Checking Account daily.
- Inmate Trust Fund reconciliations should be performed every month and maintained with all documentation to support the reconciliation. Additionally, the reconciliation should be reviewed for accuracy by someone other than the preparer.
- The Sheriff file a complete and accurate report of the commissary with the Board of County Commissioners by January 15th, of each year.
- Periodic inventory reviews should be performed to verify the number of e-cigarette cartridges in inventory to the number on the inventory logs.

Management Response:

Current County Sheriff: This condition was under previous administration.

- Deposits may not be made daily due to shortage of personnel, but we have hired a new commissary clerk and are attempting to make sure the deposits are made daily, and the deposits are verified once the receipt is received back from the bank.

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- The reason for the Inmate Trust Fund Checking Account bank reconciliation not being performed in their entirety could be due to the employee taking care of the Commissary Fund. Since the audit the new Commissary Clerk has been trained on how to do this properly and will have a second person review the reconciliation.
- The Sheriff's annual commissary report to the Board of County Commissioners not being accurately completed could be due to the information provided from the commissary account. This will be done and sent over for filing with the County Commissioners office by January 15, 2021.
- An e-cigarette inventory log is maintained, and the inventory verified daily when the e-cigarettes are being passed.

Criteria: The GAO Standards – Principle 10 – Design Control Activities – 10.03 states in part:

Segregation of Duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principle 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process

Title 19 O.S. § 180.43 D. states in part, "...Any funds received pursuant to said operations shall be the funds of the county where the persons are incarcerated and shall be deposited in the Sheriff's Commissary Account. The sheriff shall be permitted to expend the funds to improve or provide jail services. The sheriff shall be permitted to expend any surplus in the Sheriff's Commissary Account for administering expenses for training equipment, travel or for capital expenditures. The claims for expenses shall be filed with and allowed

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by the board of county commissioners in the same manner as other claims. The Sheriff shall receive no compensation for the operation of said commissary. The sheriff shall file an annual report on any said commissary under his or her operation no later than January 15 of each year.”

Title 19 O.S. § 531 A. states in part, “The county sheriff may establish a checking account, to be designated the “Inmate Trust Fund Checking Account.” The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account and may write checks to the Sheriff’s Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate from unencumbered balances due the inmate upon his or her discharge.”



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