

COUNTY AUDIT

# MUSKOGEE COUNTY

For the fiscal year ended June 30, 2015



*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

**MUSKOGEE COUNTY, OKLAHOMA  
FINANCIAL STATEMENT  
AND INDEPENDENT AUDITOR'S REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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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](http://www.sai.ok.gov)) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Prairie Collection (<http://digitalprairie.ok.gov/cdm/search/collection/audits/>) pursuant to 65 O.S. § 3-114.



# Oklahoma State Auditor & Inspector

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

April 28, 2017

TO THE CITIZENS OF  
MUSKOGEE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Muskogee County, Oklahoma for the fiscal year ended June 30, 2015. The audit was conducted in accordance with 19 O.S. § 171.

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

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

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

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a large initial "G" and a long, sweeping underline.

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

**MUSKOGEE COUNTY, OKLAHOMA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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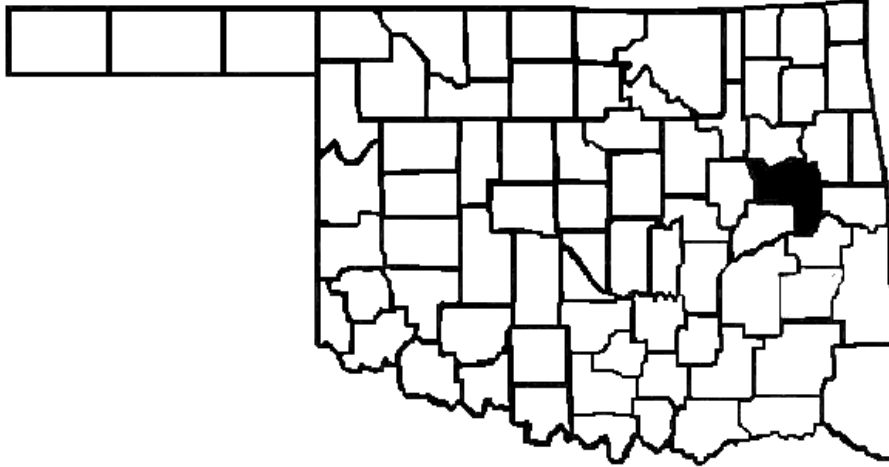
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**PRESENTED FOR INFORMATIONAL PURPOSES ONLY**

**MUSKOGEE COUNTY, OKLAHOMA  
STATISTICAL INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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Named for the Muscogee Creek Indians, Muskogee County was created at statehood. The city of Muskogee, the county seat, became the focal point for the Five Civilized Tribes when the Union Agency established its headquarters in what is now Honor Heights Park. The old Union Agency Building is now the Five Civilized Tribes Museum and the famous Azalea Festival is held in the park each April. The park is also home to the Garden of Lights in December.

Other attractions to the county include: USS *Batfish*, a World War II submarine anchored at Port of Muskogee; Bacone College, established in 1879 as a university for Indians, and Bacone College Indian Museum; Fort Gibson Stockade, built in 1824 to protect area settlers and the oldest military post in Oklahoma; and Honey Springs Battlefield, site of the largest Civil War battle fought in Oklahoma.

Muskogee County's economy is based primarily on agriculture, but oil, industry, and recreation have also been part of the building of this county's economics. The city of Muskogee itself is within thirty minutes of five major lakes.

Historical Allies is a history book about Muskogee County and was written by John W. Morris and Edwin C. McReynolds. The Muskogee County Historical Society offers more information about the area, and a state tourist information center is located in Muskogee. For more information, call the County Clerk's office at 918/682-7781.

County Seat – Muskogee

Area – 838.99 Square Miles

County Population – 69,966  
(2014 est.)

Farms – 1,735

Land in Farms – 350,119 Acres

Primary Source: Oklahoma Almanac 2015-2016

**MUSKOGEE COUNTY OFFICIALS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Board of County Commissioners**

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

**County Assessor**

Dan Ashwood

**County Clerk**

Dianna Cope

**County Sheriff**

Charles Pearson

**County Treasurer**

Kelly Garrett

**Court Clerk**

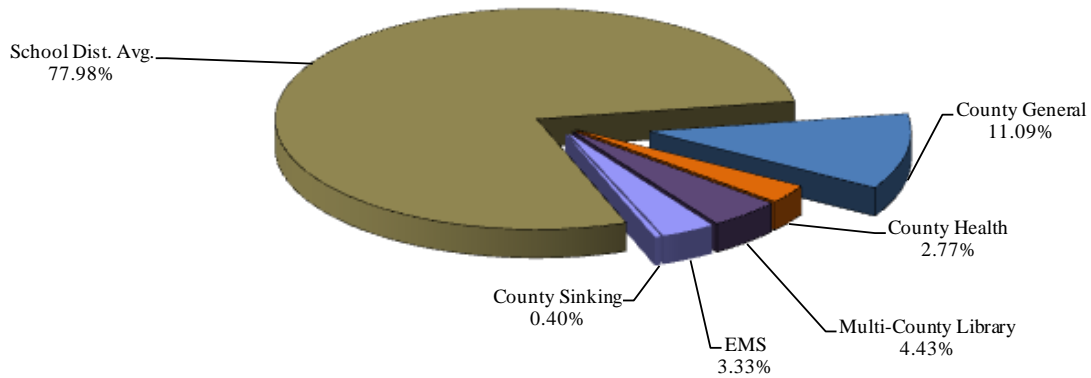
Paula Sexton

**District Attorney**

Orvil Loge

**MUSKOGEE COUNTY, OKLAHOMA  
AD VALOREM TAX DISTRIBUTION  
SHARE OF THE AVERAGE MILLAGE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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.

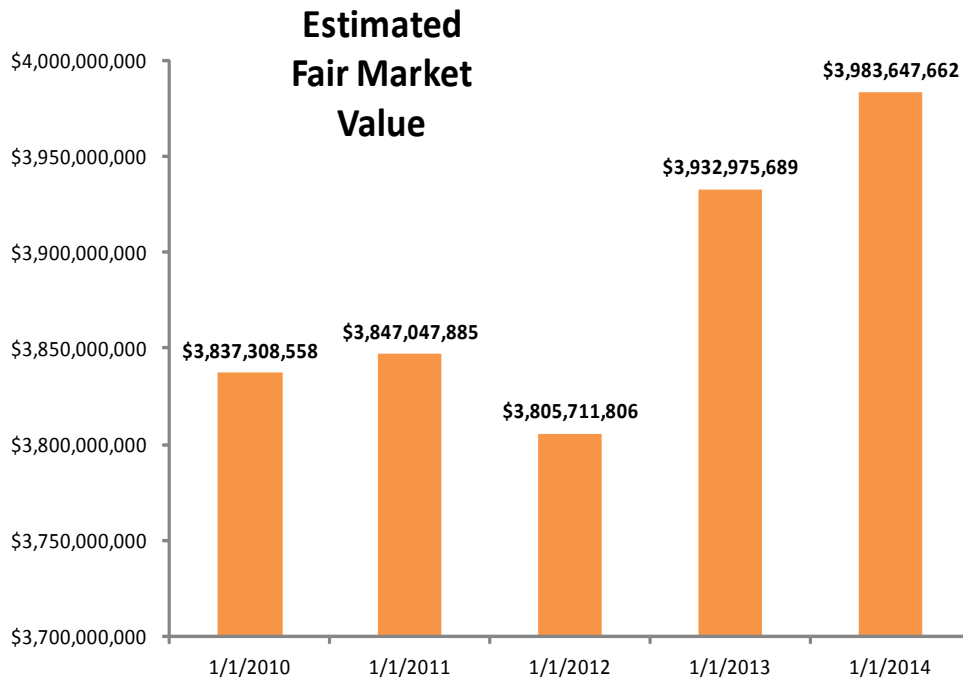


County-Wide Millages			School District Millages						
						Career			
			Gen.	Bldg.	Skp.	Tech	Common	Total	
County General	10.13								
County Health	2.53	Haskell	2	35.98	5.14	21.16	10.13	4.05	76.46
Multi-County Library	4.05	Fort Gibson	3	35.16	5.02	10.69	10.13	4.05	65.05
EMS	3.04	Webber Falls	6	36.09	5.16	22.51	10.13	4.05	77.94
County Sinking	0.36	Oktaha	8	36.68	5.24	24.97	10.13	4.05	81.07
		Wainwright	9	37.00	5.29	-	10.13	4.05	56.47
		Muskogee	20	35.40	5.06	20.54	10.13	4.05	75.18
<u>Cities and Towns</u>									
Fort Gibson	4.60	Hilldale	29	35.73	5.10	13.07	10.13	4.05	68.08
Fort Gibson 3B-MUSK	0.77	Braggs	46	35.57	5.08	15.79	10.13	4.05	70.62
Muskogee	0.77	Warner	74	35.93	5.13	8.48	10.13	4.05	63.72
Hilldale	0.77	Porum	88	36.16	5.17	11.50	10.13	4.05	67.01
		Sequoyah	J-6	35.29	5.04	10.35	10.13	4.05	64.86
		Mcintosh	J-19	36.66	5.24	24.30	10.13	4.05	80.38
		Mcintosh	J-27	35.84	5.12	23.95	10.13	4.05	79.09



**MUSKOGEE COUNTY, OKLAHOMA  
 ASSESSED VALUE OF PROPERTY  
 TREND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2014	\$100,596,775	\$126,150,599	\$285,231,990	\$19,760,796	\$492,218,568	\$3,983,647,662
1/1/2013	\$102,755,190	\$125,219,009	\$278,128,190	\$19,733,010	\$486,369,379	\$3,932,975,689
1/1/2012	\$96,413,150	\$119,124,642	\$272,877,815	\$19,397,844	\$469,017,763	\$3,805,711,806
1/1/2011	\$102,507,840	\$122,842,789	\$270,073,175	\$19,338,655	\$476,085,149	\$3,847,047,885
1/1/2010	\$107,073,070	\$118,032,417	\$267,132,770	\$19,103,360	\$473,134,897	\$3,837,308,558

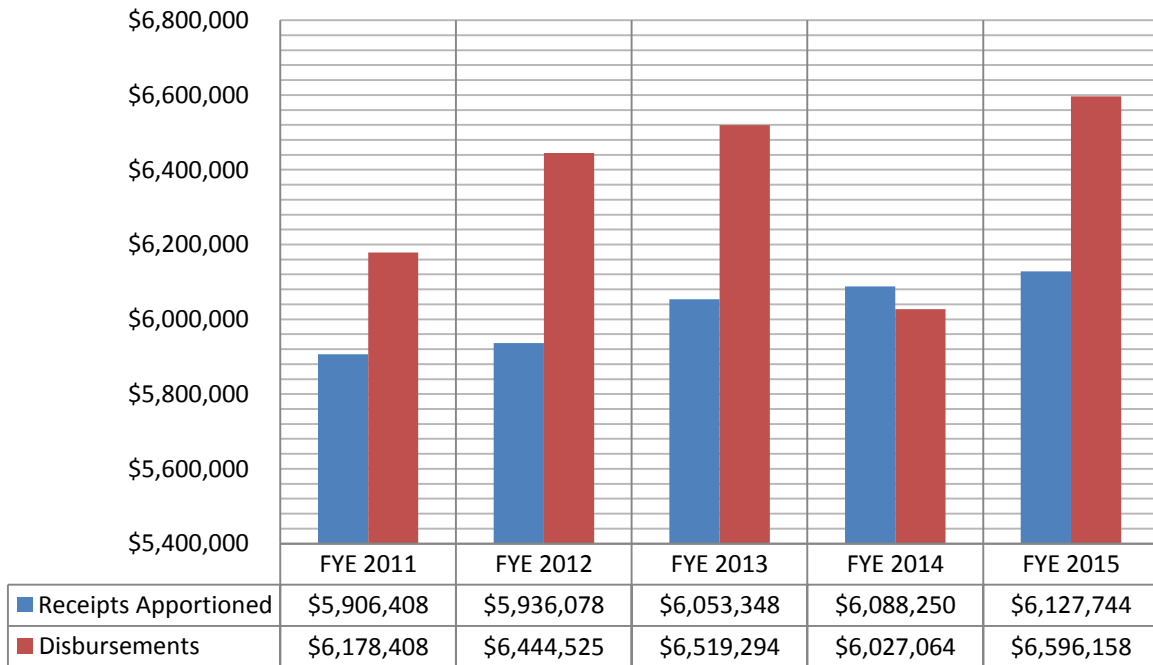


**MUSKOGEE COUNTY, OKLAHOMA  
COUNTY GENERAL FUND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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## 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.

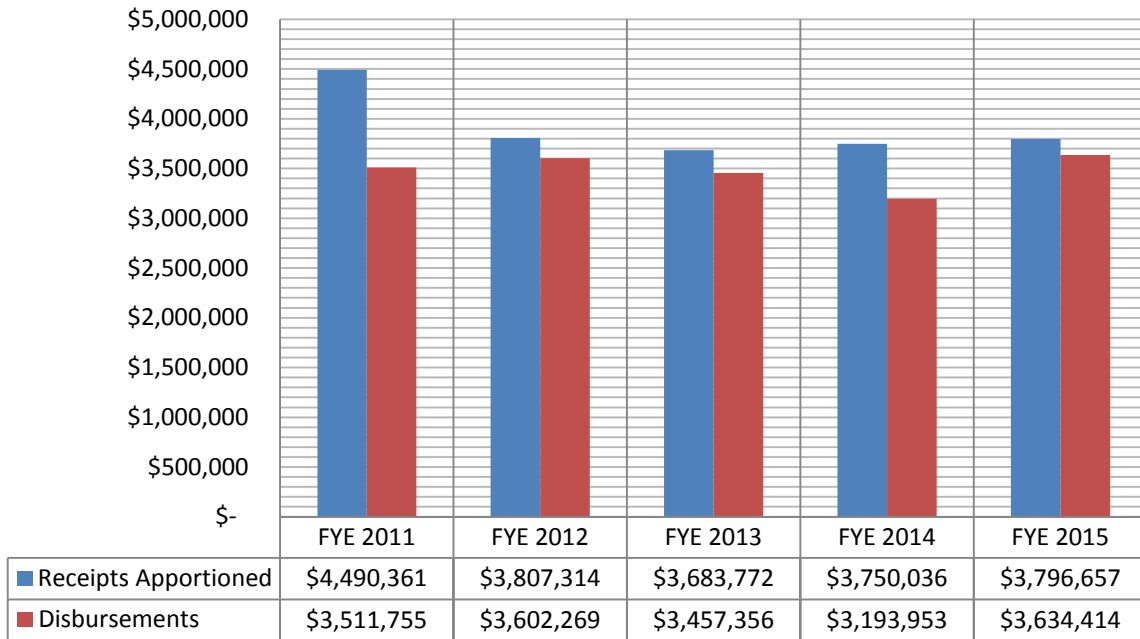


**MUSKOGEE COUNTY, OKLAHOMA  
COUNTY HIGHWAY FUND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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## 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.



**FINANCIAL SECTION**



# Oklahoma State Auditor & Inspector

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

## Independent Auditor's Report

TO THE OFFICERS OF  
MUSKOGEE COUNTY, OKLAHOMA

### *Report on the Financial Statement*

We have audited the combined 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, 2015, 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 the 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 of the financial statement, 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 statements 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, 2015, or changes in its financial position for the year then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash balances for all county funds of Muskogee County, for the year ended June 30, 2015, in accordance with the basis of accounting described in Note 1.

***Other Matters***

***Other Information***

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

The Other Supplementary Information, as listed in the table of contents, is the responsibility of management and was derived from and related 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 Other Supplementary Information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the combined total—all county funds.

Muskogee County has not presented the budgetary comparison information for the Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—General Fund. Although not a part of the financial statement, such information is an integral part of the regulatory presentation for county government.

The information listed in the table of contents under Introductory Section has not been subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering Muskogee County's internal control over financial reporting and compliance.

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

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

April 25, 2017

**REGULATORY BASIS FINANCIAL STATEMENT**



**MUSKOGEE COUNTY, OKLAHOMA**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES—REGULATORY BASIS**  
**(WITH COMBINING INFORMATION)—MAJOR FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Beginning Cash Balances July 1, 2014	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2015
Combining Information:						
Major Funds:						
County General	\$ 2,302,986	\$ 6,127,744	\$ 850,000	\$ 850,000	\$ 6,596,158	\$ 1,834,572
Highway Cash	3,894,590	3,796,657	-	-	3,634,414	4,056,833
County Health	1,395,078	1,813,217	-	-	979,334	2,228,961
County Sinking	260,954	235,108	-	-	320,360	175,702
General Obligation Bonds	234,747	275,094	-	-	192,777	317,064
GO Bonds - BOK Servicing Agreement	1,856,990	727,592	-	-	1,112,489	1,472,093
Muskogee City County Detention - Sheriff's Department	397,852	1,268,937	-	-	1,452,179	214,610
County Bridge and Road Improvement	2,966,940	444,904	-	-	136,292	3,275,552
County Sales Tax/Sheriff	683,869	1,911,971	-	-	1,977,440	618,400
Firefighter Cash/Sales Tax	1,654,918	1,147,433	-	-	922,252	1,880,099
Muskogee County Sales Tax/Highway	2,387,553	2,024,660	-	-	2,165,613	2,246,600
Resale Property	1,329,820	644,406	850,000	850,000	805,352	1,168,874
Remaining Aggregate Funds	2,974,469	1,728,352	-	-	1,247,550	3,455,271
<b>Combined Total - All County Funds</b>	<b>\$ 22,340,766</b>	<b>\$ 22,146,075</b>	<b>\$ 1,700,000</b>	<b>\$ 1,700,000</b>	<b>\$ 21,542,210</b>	<b>\$ 22,944,631</b>

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, 2015**

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**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 as combining information 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 health department, and state and federal funds. Disbursements are for the operation of the county health department.

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

**MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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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.

Muskogee City County Detention - Sheriff's Department – accounts for revenues from law enforcement entities for the housing the entity's prisoners. Disbursements are for the general operation of the Sheriff's Department and Detention Center.

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.

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

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

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

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

**C. Basis of Accounting**

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

Title 19 O.S. § 171 specifies the format and presentation for Oklahoma counties to present their financial statement in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or on a regulatory basis. The County has elected to present their financial statement on a regulatory basis in conformity with Title 19 O.S. § 171. County governments (primary only) are required to present their financial statements on a fund basis

**MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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format with, at a minimum, the general fund and all other county funds, which represent ten percent or greater of total county revenue. All other funds included in the audit shall be presented in the aggregate in a combining statement.

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

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

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

**2. Ad Valorem Tax**

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

**MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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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.

**3. Other Information**

**A. Pension Plan**

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

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

**B. Other Post Employment Benefits (OPEB)**

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

**C. Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of

**MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

expenditures which may be disallowed by the grantor cannot be determined at this time; although, the County expects such amounts, if any, to be immaterial.

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

**D. Long Term Obligations**

**1. General Obligation Bonds**

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are required to be fully paid within 25 years from the date of issue.

The following table presents the general obligation bonds at June 30, 2015, and charges for the fiscal year then ended (expressed in thousands):

Bond	Interest Rates	Beginning Balance	Reduction	Ending Balance	Amount due within one year
County Lmtd Tax Bonds 1999, Series A	5.125%-5.40%	\$ 380,000	\$ 80,000	\$ 300,000	\$ 80,000
County Lmtd Tax Bonds 2001, Series A	8.00%-5.00%	200,000	200,000	-	-
County Lmtd Tax Bonds 2005, Series A	6.00%-5.00%	495,000	70,000	425,000	70,000
County Lmtd Tax Bonds 2006, Series A	4.50%-6.00%	320,000	40,000	280,000	40,000
County Lmtd Tax Bonds 2009, Series A	5.40%-6.75%	310,000	30,000	280,000	30,000
County Lmtd Tax Bonds 1997, Series B	7.00%-6.00%	700,000	170,000	530,000	170,000
County Lmtd Tax Bonds 2000, Series B	7.50%-7.00%	740,000	105,000	635,000	105,000
County Lmtd Tax Bonds 2004, Series B	7.40%-7.30%	685,000	135,000	550,000	135,000
County Lmtd Tax Bonds 1999, Series C	9.00%-8.70%	25,000	25,000	-	-
County Lmtd Tax Bonds 2004, Series C	4.70%-6.00%	160,000	160,000	-	-
County Lmtd Tax Bonds 1999, Series E	6.45%-7.00%	360,000	45,000	315,000	45,000
GO Lmtd Tax Taxable Refunding Bonds of 2010	3.25%-5.00%	400,000	200,000	200,000	200,000
		<u>\$ 4,775,000</u>	<u>\$ 1,260,000</u>	<u>\$ 3,515,000</u>	<u>\$ 875,000</u>

During fiscal year 2015, payments included \$1,260,000 principal, \$261,133 interest, and \$4,133 agent fees.

**MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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Annual debt service requirements to maturity for general obligation bonds, including interest of \$604,375, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$875,000	\$200,721	\$1,075,721
2017	675,000	150,205	825,205
2018	695,000	108,574	803,574
2019	495,000	71,515	566,515
2020	290,000	37,985	327,985
2021-2024	485,000	35,375	520,375
Total	<u>\$3,515,000</u>	<u>\$604,375</u>	<u>\$4,119,375</u>

**E. Sales Tax**

On November 8, 2005, Muskogee County voters approved a sales 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.

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 fire fighting 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, Muskogee County voters 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.

**MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**F. Interfund Transfers**

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

- \$850,000 was transferred from the Resale Property fund to the County General fund to meet requirements of appropriations in accordance with 68 O.S. § 3021.
- \$850,000 was transferred from the County General fund into the Resale Property fund for repayment of the loan in accordance with 68 O.S. § 3021.



**OTHER SUPPLEMENTARY INFORMATION**

**MUSKOGEE 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, 2015**

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	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 1,395,078	\$ 1,395,078	\$ -
Less: Prior Year Outstanding Warrants	(26,859)	(26,859)	-
Less: Prior Year Encumbrances	(21,312)	(16,683)	4,629
Beginning Cash Balances, Budgetary Basis	1,346,907	1,351,536	4,629
Receipts:			
Ad Valorem Taxes	1,132,103	1,217,107	85,004
Charges for Services	-	550,086	550,086
Miscellaneous Revenues	550,114	46,024	(504,090)
Total Receipts, Budgetary Basis	1,682,217	1,813,217	131,000
Expenditures:			
Health and Welfare	3,029,124	1,015,914	2,013,210
Total Expenditures, Budgetary Basis	3,029,124	1,015,914	2,013,210
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	2,148,839	\$ 2,148,839
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		10,811	
Add: Current Year Outstanding Warrants		69,311	
Ending Cash Balance		\$ 2,228,961	

**MUSKOGEE COUNTY, OKLAHOMA**  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES—REGULATORY BASIS—**  
**REMAINING AGGREGATE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Beginning		Disbursements	Ending
	Cash Balances	Receipts		Cash Balances
	July 1, 2014	Apportioned		June 30, 2015
Remaining Aggregate Funds:				
Muskogee City County Detention Grant 2	\$ 71	\$ -	\$ -	\$ 71
County Clerk Lien Cash Fund	26,254	30,325	26,493	30,086
Sheriff Service Fee Cash Fund	164,711	739,378	623,192	280,897
Treasurer Mortgage Certification Fee	34,877	10,210	38,379	6,708
Sheriff Patrol Cash Fund	34,472	23,630	15,292	42,810
Assessor Visual Inspection and County Assessor Revolving Fund	36,822	6,991	3,119	40,694
Sheriff Commissary Fund	91,782	313,931	302,161	103,552
County Clerk Records Management Preservation Fund	136,341	70,258	70,811	135,788
Sheriff Drug Forfeiture	101,693	9,187	44,042	66,838
Sheriff Training	2,124	-	-	2,124
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	8	23,999	-	24,007
County Use Tax	1,428,122	365,987	50,000	1,744,109
Muskogee County K-9	1,151	5,708	-	6,859
Sheriff Reward Revolving	4,555	37,431	37,311	4,675
Capital Improvement Plan	7,336	-	-	7,336
Rainy Day Fund	876,821	-	-	876,821
Emergency Management Grant Fund	344	-	-	344
Cash Drawer	530	-	-	530
County Water Improvement District 1	1,410	-	-	1,410
County Clerk Fire Department Reimbursement	1,067	9,223	8,380	1,910
Flood Plain Fund	750	1,500	-	2,250
Emergency Management Performance Grant/ST	22,246	26,126	9,902	38,470
Muskogee Fair Account	-	3,000	3,000	-
CDBG SUM	-	15,468	15,468	-
Grant Money Cherokee Nation	-	36,000	-	36,000
<b>Combined Total - Remaining Aggregate Funds</b>	<b>\$ 2,974,469</b>	<b>\$ 1,728,352</b>	<b>\$ 1,247,550</b>	<b>\$ 3,455,271</b>

**MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO OTHER SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**1. Budgetary Schedules**

**Budgetary Schedules**

The Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General Fund has not been presented. Therefore, the legally adopted budget cannot be compared with actual data for the General Fund. The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the County Health Department Fund presents comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Receipts, Disbursements, and Changes in Cash Balances with Combining Information because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

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

**2. Remaining County Funds**

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

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.

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

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.

Assessor Visual Inspection and 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.

**MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO OTHER SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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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.

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.

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

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

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

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.

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

**MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO OTHER SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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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.

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

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

Grant Money Cherokee Nation – accounts for monies received from donations from Cherokee Nation. Disbursements are for expenses relating to the County Health Department Healthy Nation Program.

**INTERNAL CONTROL AND COMPLIANCE SECTION**



# Oklahoma State Auditor & Inspector

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

## **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 the 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 combined total—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Muskogee County, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statement, which collectively comprises Muskogee County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated April 25, 2017.

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 for the year ended June 30, 2015, 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) to determine the 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: 2015-1, 2015-3, 2015-4, 2015-8, 2015-11, and 2015-13.



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: 2015-2, 2015-7, and 2015-20.

### **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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

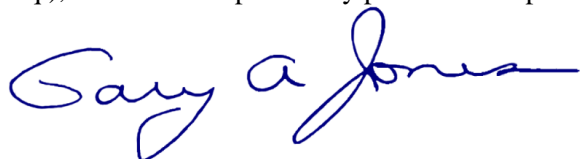
### **Muskogee County's Responses to Findings**

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

### **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 result 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.

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with the first name "Gary" being the most prominent.

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

April 25, 2017

**MUSKOGEE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**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 2015-1 – Inadequate County-Wide Internal Controls (Repeat Finding)**

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

**Cause of Condition:** Policies and procedures have not been designed to address the Risk Assessment and Monitoring of the County. The County was not fully aware of the benefits gained by the implementation of procedures regarding the Risk Assessment and Monitoring as it relates to the strengthening of its internal control structure.

**Effect of Condition:** This condition 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 procedures to establish internal controls and identify and address risk. OSAI also recommends that the County design monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the County's policies and procedures handbook.

**Management Response:**

**Chairman of the Board of County Commissioners:** We have recently begun having meetings that include all of the offices of Muskogee County, designed to help us better understand the concerns and struggles that each office faces. Through these meetings we hope to produce better policies and procedures. We will be looking at the findings and recommendations of this audit, and striving to put the recommendations into practice to be more efficient and compliant. We will also pursue opportunities to provide training for our officials and their staff to help us better understand the scope of our jobs. Our goal is to be in complete compliance with the laws and statutes that govern us and to operate our County efficiently and lawfully.

**County Clerk:** We have recently had one meeting regarding Risk Assessment and Monitoring with a representative present from each department.

**County Treasurer:** The Treasurer's office will work with the officers and schedule monthly meetings regarding Risk Assessment and Monitoring, procedures will be submitted in writing. We have held one meeting in the current fiscal year.

**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

**MUSKOGEE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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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 Control Environment, Risk Assessment and Monitoring for the achievement of these goals.

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

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

**Finding 2015-2 – Inadequate Internal Controls Over Information Systems Security – County Treasurer (Repeat Finding)**

**Condition:** Upon review of the computer systems within the County Treasurer’s office, it was noted that there does not appear to be adequate controls in place to safeguard data from unauthorized modification, loss, or disclosure. The specifics of the condition has been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

**Cause of Condition:** Policies and procedures have not been designed and implemented to prevent unauthorized access to data.

**Effect of Condition:** This condition could result in compromised security for computers, computer programs, and data.

**Recommendation:** OSAI recommends the County comply with best practices presented in the criteria. The specifics of the recommendation has been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

**Management Response:**

**County Treasurer:** The County Treasurer will monitor security levels quarterly and keep note of said levels.

**Criteria:** According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes

**MUSKOGEE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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performing security on monitoring and periodic testing and implementing corrective actions for identified security weakness or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

**Finding 2015-3 – 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: reconciling bank statements, issuing receipts, and preparing deposits. In addition, the duties of issuing receipts, preparing the daily report, preparing the monthly report, posting apportionments to the general ledger, and reconciling the general ledger to the monthly report and reconciling bank statements are all being performed by one employee. For mail-in payments, all employees can open the mail and issue receipts. The County Treasurer’s office does not prepare and maintain a mail log.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure adequate segregation of duties in the County Treasurer’s office.

**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, clerical errors, or misappropriation of funds not being detected in a timely manner.

**Recommendation:** OSAI recommends that management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

**Management Response:**

**County Treasurer:** At present all employees can issue tax, mortgage tax and trust receipts. However, miscellaneous receipts are issued by the chief, first and second deputies only. The balancing of bank statements was at one time divided between two employees. This process will be reinstated. The daily verifying of monies for deposit to the general bank account and the official depository are to be the responsibility of the cashier and official depository clerk, with re-verification by management personnel. A mail log is not feasible at this time. This office does keep a file on all returned payments, each consisting of the original envelope, a copy of said contents and correspondence from this office when said payment is returned

**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, reconciling the cash drawer, preparing and making deposits, and maintaining and reconciling account balances should be segregated.

**MUSKOGEE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Finding 2015-4 – Control Environment Regarding Financial Reporting and Noncompliance with State Statute (Repeat Finding)**

**Condition:** As part of our Risk Assessment, we interviewed the County Treasurer and office employees as to their understanding on internal controls. As part of our financial statement audit, we test receipts, disbursements, and cash balances.

While verifying the financial statement and Schedule of Expenditures of Federal Awards (SEFA), we noted the following concerns:

- During the fiscal year 2012 audit, it was noted that the County had transferred out monies from the General Obligation Bonds fund to a financial institution in accordance with a servicing agreement dated July 2010. The servicing agreement designates the Bank of Oklahoma (BOK) as the servicing agent to receive all note payments, bank fees, administrative fees, and default payments on certain outstanding bonds, as well as, to pay principal and interest on the outstanding debt. During fiscal year ending June 30, 2015, the GO Bonds - BOK Servicing Agreement fund was not monitored by the County Treasurer's office or other county personnel and the balance of \$1,472,093 was not presented on the County's financial statement. Adjusting journal entries were proposed by auditors and the financial statement was corrected.
- A County Health Department certificate of deposit in the amount of \$68,450 was redeemed and a miscellaneous receipt issued for the amount in December 2014. The funds were reapportioned to County Health in the same month. The County Treasurer failed to deduct this amount from the Health Department Investment account, but the \$68,450 was deposited into the general bank account and apportioned to the County Health fund which resulted in a \$68,450 overstatement of the County Health fund ending balance and apportionments. The corrections for this error were not made as of March 2, 2016.
- In March 2015, there was a payment of \$100,360 from both the County Sinking and General Obligation Bonds funds posted to the general ledger. OSAI reviewed the general account bank statements March through July, 2015 noting a single Treasurer's check for the amount of \$100,360 clearing the bank. The duplicate posting of the bond payments resulted in the County Sinking fund disbursements being overstated by \$100,360 and the ending balance understated by \$100,360.
- While confirming the SEFA, a payment of \$3,802 in March 2015 payable to Muskogee County from Civil Emergency Management was noted, but there was no documentation of the grant funds being receipted by the County Treasurer. The third-party confirmation reflects the electronic fund transfer (EFT) was sent March 31, 2015. After OSAI inquired about said monies the County Treasurer located the EFT and issued miscellaneous receipt on October 27, 2015 for the \$3,802.
- While confirming investments for the fiscal year June 30, 2015, it was noted that a certificate of deposit account registry service's investment in the amount of \$1,500,000 was not recorded on the

**MUSKOGEE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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investment ledger along with two (2) certificate of deposits totaling \$23,027. Additionally, it was noted that three (3) certificate of deposits had interest recorded on the investment ledger, but not updated on the general ledger.

- An investment policy was not approved by the Board of County Commissioners to authorize the County Treasurer to make investments.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure the financial reporting operations of the County Treasurer’s office are conducted in an effective and efficient manner.

**Effect of Condition:** These conditions adversely affect the entity’s ability to initiate, authorize, record, process, or report financial data reliably and resulted in noncompliance with state statute.

**Recommendation:** OSAI recommends the County be aware that there is more than a remote likelihood that a misstatement of the entity’s financial statements, that is more than inconsequential, will not be prevented or detected. Management should take action to mitigate the possibility of a misstatement. OSAI further recommends that the County Treasurer’s office personnel gain an understanding of the design of the internal control process and implement those controls in an effective and efficient manner.

Additionally, OSAI recommends that the County 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:**

**County Treasurer:** The County Treasurer regrets the errors pointed out by the state auditor. Such errors will be corrected as quickly as possible. The County Treasurer’s office has employed an outside accounting to assist with this endeavor.

**Chairman of the Board of County Commissioners:** The Board of County Commissioners are aware of the problems identified in this finding and we have encouraged the County Treasurer to put measures into place to prevent any of these types of oversights from happening again. I did meet with our County Treasurer and he understands that changes must be made to ensure that our internal controls are such that these types of occurrences will not go undetected or uncorrected again.

**Criteria:** Effective internal controls are essential to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, and compliance with applicable laws and regulations. An effective internal control system has in place policies and procedures that reduce the risk of errors and fraud within an organization. A key factor in this system is the environment established by management. In addition, management attitude, qualifications, and operating style become the foundation of all other internal control components.

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

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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.”

**Finding 2015-7 – Inadequate Internal Controls Over Signature Stamps – County Commissioners (Repeat Finding)**

**Condition:** While gaining an understanding of the purchasing process, we noted the following:

- The County Treasurer’s office had physical control of District 1 and District 3 County Commissioner’s stamps during the fiscal year; however, we did note that January 1, 2015, the District 1 and District 3 County Commissioners changed and the new Commissioner’s stamps are not located in the County Treasurer’s office.
- All three (3) County Commissioners’ signature stamps are locked in a safe in the Board of County Commissioners meeting room all three Commissioners have access to the safe.

**Cause of Condition:** Procedures have not been designed to ensure signature stamps are used only by the owner. Commissioners do not have physical control of their signature stamps.

**Effect of Condition:** This condition increases the concentration of duties regarding the purchasing process due to the County Treasurer’s office having the ability to approve warrants. Consequently, this could result in unauthorized transactions, misappropriation of funds, or clerical errors that are not detected in a timely manner.

**Recommendation:** OSAI recommends that signature stamps be used only by the official to whom it belongs. Officials who utilize signature stamps should ensure that signature stamps are adequately safeguarded from unauthorized use.

**Management Response:**

**County Treasurer:** The County Treasurer’s office no longer has physical custody of any officer’s signature stamps.

**County Commissioner District 1:** Each Commissioner now has a locked bank bag accessible by a key only kept by that Commissioner, no one except me has authority or the ability to access my signature stamp as of now.

**County Commissioner District 2:** The fire proof safe was recommended by OSAI during our last audit, we have since purchased three separate lock bags for each of our stamps.

**County Commissioner District 3:** All three stamps will remain in the same safe, but each stamp will be locked up separately in lockable bank bags going forward. This has already been implemented at this time.

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**Criteria:** An important aspect of internal control is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by the entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or untimely detection of unauthorized acquisition, use or disposition of the entity's assets and safeguarding assets from loss, damage, or misappropriation.

**Finding 2015-8 – 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 to ensure the reconciliation of the County Clerk's appropriation ledger to the County Treasurer's general ledger.

**Effect of Condition:** This condition could result in unrecorded transactions, misstated financial reports, undetected errors, 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. Documentation of this reconciliation should be reviewed and approved by someone other than the preparer.

**Management Response:**

**County Clerk:** We have been balancing our appropriation ledger with the County Treasurer's office appropriation ledger and not the Treasurer's general ledger. We are working on changing this.

**County Treasurer:** The Treasurer's office has balanced with the County Clerk's office. We have balanced the appropriation ledger from the Treasurer's office and not the general ledger this will be remedied.

**Criteria:** Safeguarding controls are an important aspect of internal control. Safeguarding controls related 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 on a monthly basis.

**Finding 2015-11 – Inadequate Internal Controls Over Bank Reconciliations (Repeat Finding)**

**Condition:** While reperforming the bank reconciliations and verifying all reconciling items at June 30, the following exceptions were noted:



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- Bank reconciliations were not performed for the following three (3) accounts – County General, Independent School District, and GO Bond Acct. The County General account was last reconciled on December 4, 2014
- The bank reconciliation for the Employee Tax account was not reconciled correctly.

**Cause of Condition:** Policies and procedures have not been designed to ensure all accounts are reconciled and approved on a monthly basis.

**Effect of Condition:** This condition could result in undetected errors and/or misappropriation of assets.

**Recommendation:** OSAI recommends that bank reconciliations are performed monthly for all accounts. In addition, all bank reconciliations should be reviewed and approved by someone other than the preparer and include an indication of such review.

**Management Response:**

**County Treasurer:** We are working to re-establish various employees who will be balancing the bank statements. The Treasurer's office is working with an accounting firm to build an accurate bank reconciliation form that is adequate for our needs. All accounts will be reconciled and accounts missing from the General Ledger will be added.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, all banks reconciliations should be performed monthly and approved by someone other than the preparer.

**Finding 2015-13 – Lack of Internal Controls Over Presentation of Financial Statement (Repeat Finding)**

**Condition:** The County has not designed and implemented internal controls for the presentation of the County financial statement. During the review and reconciliation of the financial statement as initially prepared by the County, we determined the preparer of the financial statement did not report accurate numbers.

The cash receipts and cash disbursements were reported as \$21,418,483 and \$20,429,721, respectively. A review of the records provided by the County Treasurer determined that the actual receipts and disbursements amounts were \$22,146,075 and \$21,542,210; an understatement of \$727,592 and \$1,022,489, respectively.

**Cause of Condition:** Internal controls have not been designed and implemented to accurately report cash receipts and disbursements on the financial statement.

**Effect of Condition:** These conditions resulted in inaccurate reporting of cash receipts and cash disbursements on the financial statement.

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**Recommendation:** OSAI recommends the County design and implement procedures to ensure the cash receipts and cash disbursements are reported accurately on the financial statement.

**Management Response:**

**County Treasurer:** Although employees attended an extremely short school on the financial statement, there was little or no understanding on how to proceed with said form. The County has employed the services of an outside accounting firm to produce the County's financial statements in the future.

**Criteria:** Effective internal controls are essential to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, and compliance with applicable laws and regulations. An effective internal control system has in place policies and procedures that reduce the risk of errors and fraud within an organization.

The County's management is responsible for establishing internal control procedures to prevent or detect misstatements in a timely manner. Professional audit standards preclude the external financial statement auditor from performing any part of management's control activities or be a component of the internal controls over financial reporting as this would impair their independence.

**Finding 2015-20 – Estimate of Needs Not Accurately Presented**

**Condition:** We noted in the 2015-2016 Estimate of Needs, that the cash disbursements on the budget was \$58,410 more for the County General Fund than what was disbursed on the financial statement.

**Cause of Condition:** Policies and procedures have not been designed to ensure the Estimate of Needs agrees to the financial statement.

**Effect of Condition:** This condition resulted in an incomplete and incorrect Estimate of Needs being approved. In addition, as a result of this condition, the County is unable to present a Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances – Budget to Actual – Budgetary Basis – General Fund.

**Recommendation:** We recommend management review the Estimate of Needs prior to approval to ensure that all exhibits are accurately presented.

**Management Response:**

**Chairman Board of County Commissioners:** We will scrutinize the estimate of needs to ensure that the estimate of needs balances with the financial statement.

**Criteria:** The adopted budget is an expression of public policy and financial intent and is a method of providing controls over that intent. Effective internal controls as they relate to government entities financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users' access to that accountability by demonstrating whether resources were obtained and used in accordance with the entity's adopted budget.

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**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 2015-15 – Inadequate Internal Controls and Noncompliance Over the Inmate Trust Fund Checking Account and Sheriff Commissary Fund (Repeat Finding)**

**Condition:** An audit of the Inmate Trust Fund Checking Account reflected the following:

- One employee purchases inventory for e-cigarettes and phone cards, stocks the inventory, inputs the inventory into the system, fills commissary orders, deducts the inventory from the system, and deducts cost of inventory from inmate balances.
- Receipts are not issued for purchase of e-cigarettes or phone cards.
- One employee receives monies from inmate’s property, inputs receipted money into system, prepares deposits, and issues checks.
- Deposits are not made daily.
- Commissary and communication contracts were not approved by the Board of County Commissioners.
- The Sheriff’s office was unable to provide current contracts with the commissary vendors.
- Receipts are not clearly marked for the purpose of the inmate trust fund.
- Receipts are not issued in numerical order.
- The inmates’ ledger balances are not being reconciled to the bank statements each month.
- The Sheriff’s office did not file an annual report for the Commissary Fund with the Board of County Commissioners by January 15th, of the year.

After performing testwork regarding Inmate Trust Fund Checking Account expenditures, the following exceptions were noted:

- Checks are being issued to vendors for commissary items.
- Checks are being issued to other individuals rather than to the inmate.

**Cause of Condition:** Policies and procedures have not been designed and implemented regarding the Inmate Trust Fund Checking Account and Sheriff Commissary Fund.

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

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**Recommendation:** OSAI recommends the following:

- 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.
- All contracts should be renewed and approved by the Board of County Commissioners annually.
- Inmate trust fund monies should be maintained in a manner that reflects each inmate's trust deposits, disbursements, and account balances. The inmate's trust fund balances should be reconciled to the bank statements each month.
- Expenditures should be made from the Sheriff's Commissary Fund in accordance with 19 O.S. § 180.43.
- The Sheriff should file a report of the commissary with the County Commissioners by January 15th, of each year.
- Receipts issued should bear the name of the office and account, and should be pre-numbered, duplicate receipts, issued in sequential order for all monies collected.

**Management Response:**

**County Sheriff:**

- One employee will purchase phone cards and e-cigs, and another employee will perform the inventory and stocks the inventory items. Then another employee will sell and deduct the cost from the inmate's accounts in the system.
- Only monies that are received are money orders in the inmates name and a pre-numbered receipt will be issued. The following will be implemented: One employee will gather money orders and writes receipts, a different employee will enter the receipts on the books and prepares deposit, and a third employee will take deposit to the bank in a locked bag.
- Deposits will now be made daily.
- All contracts will go before the BOCC and will be up-to-date and on file.
- Pre-numbered receipts will be printed "Inmate Trust Fund" We have now started using only one printed pre-numbered receipt book for "Inmate Trust Fund" and one printed pre-numbered book for "Cash Bonds", both are clearly marked.
- Bank Statements are now being reconciled monthly.
- A Commissary Fund annual report will be filed with the BOCC annually.
- The only checks written from the Inmate Trust Fund Checking Account will be written to inmates.
- All missing receipts have now been found.

**Criteria:** The overall goal of effective internal controls is to demonstrate accountability and stewardship. To help ensure a proper accounting of funds, no one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions. In addition, two authorized signatures should be required on all inmate trust account checks, bank reconciliations should be performed each month, and contracts should be approved by the Board of County Commissioners.

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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 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 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."

**Finding 2015-16 – Inadequate Internal Controls and Noncompliance Over Fixed Assets (Repeat Finding)**

**Condition:** Upon inquiry and observation of the recordkeeping processes regarding fixed assets, the following was noted:

No inventory list or documentation of an annual review was on file with the County Clerk's office for the following offices:

- County Commissioner District 1
- County Commissioner District 2 is performing a periodic review of fixed assets. However, it was not filed with the County Clerk's office.
- County Commissioner District 3
- County Treasurer
- County Election Board

**Cause of Condition:** Policies and procedures have not been designed to ensure inventory is being properly accounted for and updated with the office of the County Clerk.

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

**Recommendation:** OSAI recommends the County comply with 19 O.S. § 178.1 by performing and documenting a periodic inventory of fixed assets. The verification should be performed by an individual independent of the fixed asset recordkeeping process.

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**Management Response:**

**County Commissioner District 1:** The District 1 inventory list is on file at the Clerk's office; however, we were not aware that an annual review was required. We will begin completing an annual review of the inventory list at the Clerk's office going forward.

**County Commissioner District 2:** The fixed asset records are now filed in a fire proof safe in our office and checked approximately every 6 months per the last OSAI and we will take a copy to the county clerk's office.

**County Commissioner District 3:** We do have an up-to-date and accurate inventory list at District 3. We also have an accurate list at the County Clerk's office. Our office did fail to send notice to the Clerk's office to stamp our inventory list to a 2016 status. We have since corrected that error and there is a current and accurate inventory list on file at County Clerk's office as of March 2016.

**County Clerk:** The County Clerk's Office has been doing the inventory reviews each year but we were unable to provide signed documentation for FY14. We weren't aware the other departments should file a signed copy of their inventory reviews with the County Clerk's Office. From this date forward we are having each department file a signed copy each year with our office.

**County Election Board:** An audit of the Muskogee County Election Board found that there were no inventory records for the office found in the Office of the Muskogee County Clerk. Also absent from the County Clerk's Office was an annual review of the inventory of the Muskogee County Clerk. Upon inspection it was found that there were two inventory books located within the election board office. The books were duplicates and one book was supposed to be on file with the Muskogee County Clerk. One of the books was taken and filed with the Muskogee County Clerk thereby remedying one of the two deficiencies. The second deficiency of an annual inventory report not being on file was an oversight due to my lack of knowledge of the annual requirement. Having been notified of the requirement, an annual report of the inventory will be submitted for the current fiscal year and for future years going forward.

**County Treasurer:** We will make sure and provide verification of inventory from our office to the records in the County Clerk's office and will have it signed and filed.

**County Sheriff:** An inventory review will be done annually and filed with the county Clerk.

**County Assessor:** Assessor's office was notified of this issue in 2013 from prior audit and has since corrected. An annual inventory review is now submitted with the County Clerk's office.

**Criteria:** An important aspect of internal controls is the safeguarding of assets. Internal controls 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 acquisition, use or disposition of fixed assets, and safeguarding items from loss, damage, or 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,

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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..."



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