

COUNTY AUDIT

MUSKOGEE COUNTY

For the fiscal year ended June 30, 2016



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**MUSKOGEE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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



Oklahoma State Auditor & Inspector

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

October 11, 2018

TO THE CITIZENS OF
MUSKOGEE COUNTY, OKLAHOMA

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

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

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

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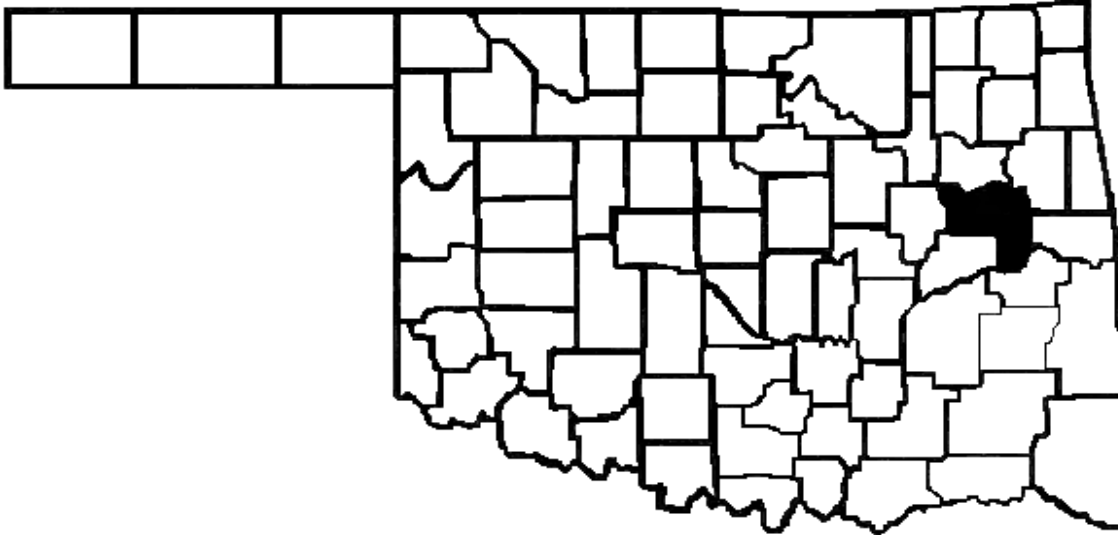
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INTRODUCTORY SECTION
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PRESENTED FOR INFORMATIONAL PURPOSES ONLY

**MUSKOGEE COUNTY, OKLAHOMA
STATISTICAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**



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, 2016**

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

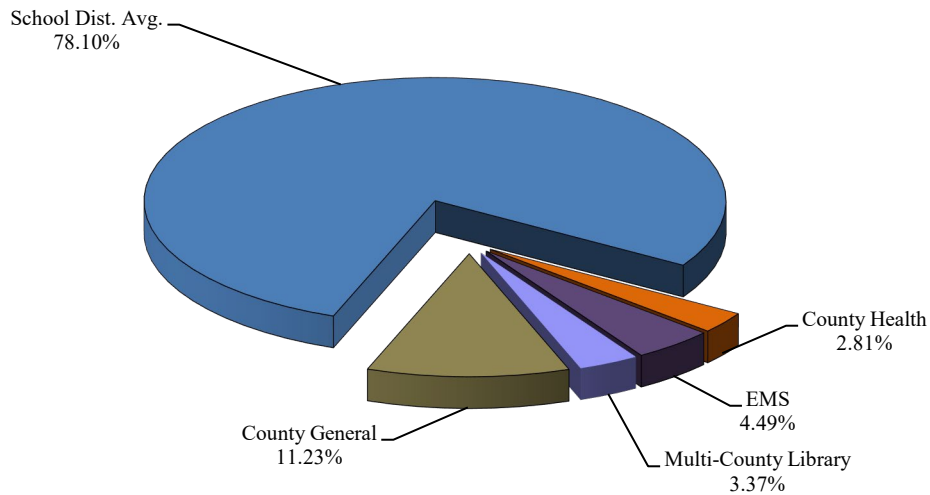
Paula Sexton

District Attorney

Orvil Loge

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

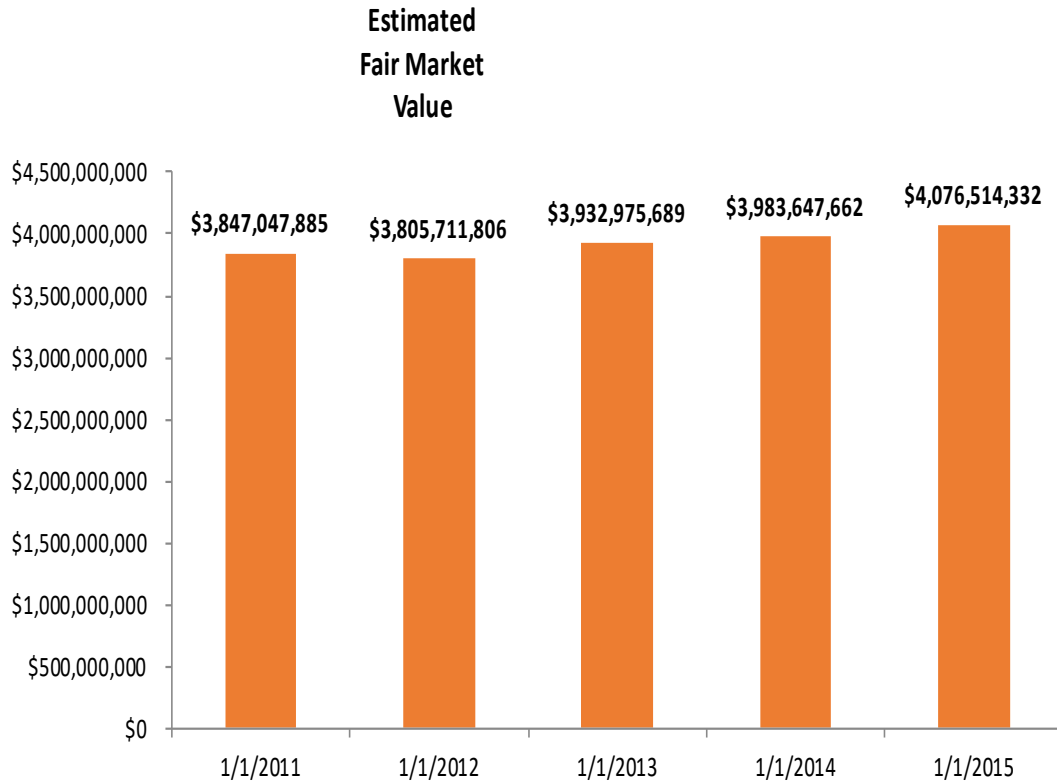
Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the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



County-Wide Millages		School District Millages							
		Career							
		Gen.	Bldg.	Skg.	Tech	Common	Total		
County General	10.13								
County Health	2.53	Haskell	2	35.98	5.14	20.77	10.13	4.05	76.07
Multi-County Library	4.05	Fort Gibson	3	35.16	5.02	11.11	10.13	4.05	65.47
EMS	3.04	Webbers Falls	6	36.09	5.16	27.57	10.13	4.05	83.00
		Oktaha	8	36.68	5.24	23.45	10.13	4.05	79.55
		Wainwright	9	37.00	5.29	-	10.13	4.05	56.47
<u>Cities and Towns</u>									
Fort Gibson	4.20	Muskogee	20	35.40	5.06	19.03	10.13	4.05	73.67
Fort Gibson-3B-Musk	0.90	Hilldale	29	35.73	5.10	13.19	10.13	4.05	68.20
Muskogee	0.90	Braggs	46	35.57	5.08	9.86	10.13	4.05	64.69
Hilldale	0.90	Wamer	74	35.93	5.13	14.44	10.13	4.05	69.68
Haskell 2A-Taft	7.14	Porum	88	36.16	5.17	11.36	10.13	4.05	66.87
		Sequoyah	J-6	35.29	5.04	-	10.13	4.05	54.51
<u>Fire Department</u>									
Gooseneck Bend	3.56	McIntosh	J-19	36.66	5.24	23.42	10.13	4.05	79.50
		McIntosh	J-27	35.84	5.12	22.84	10.13	4.05	77.98

**MUSKOGEE COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

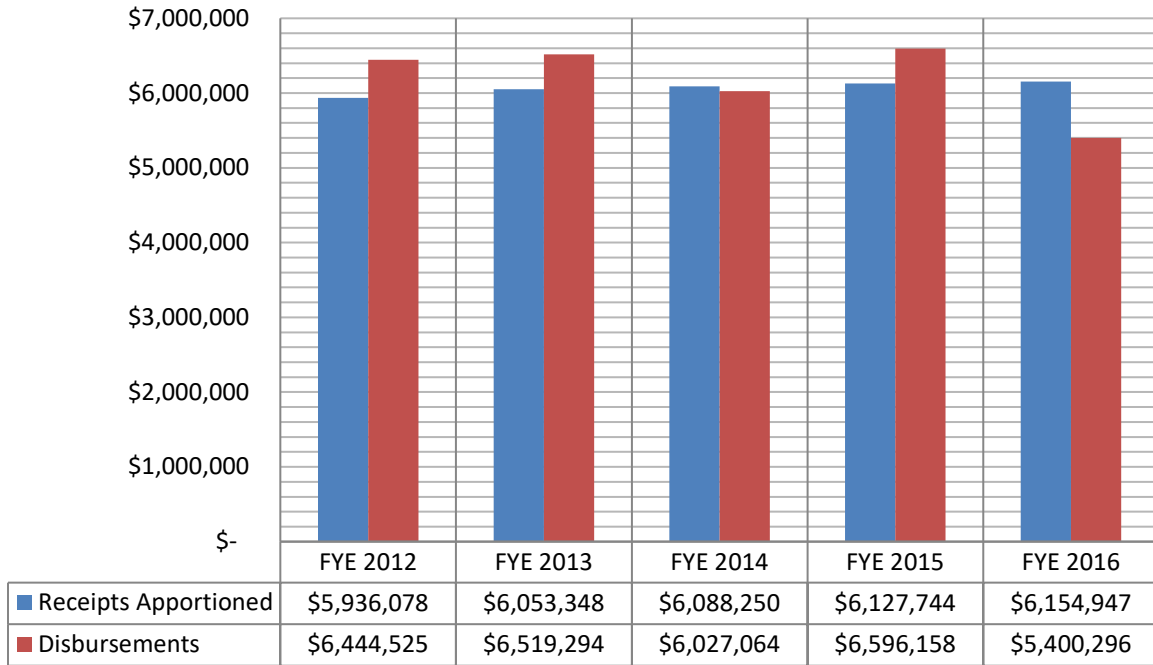
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2015	\$104,805,900	\$130,752,834	\$289,400,030	\$19,921,786	\$505,036,978	\$4,076,514,332
1/1/2014	\$100,596,775	\$126,150,599	\$285,231,990	\$19,760,796	\$492,218,568	\$3,983,647,662
1/1/2013	\$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



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

County General Fund

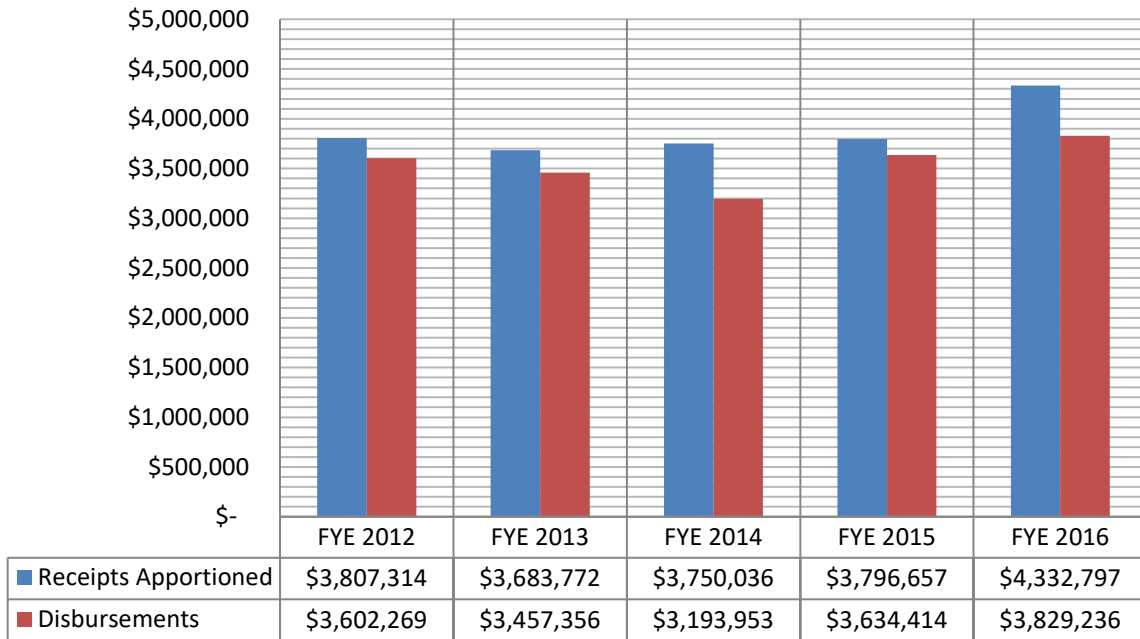
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also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



**MUSKOGEE COUNTY, OKLAHOMA
COUNTY HIGHWAY FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

County Highway Fund

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the County Highway Fund. The chart below summarizes receipts and disbursements of the County's Highway Fund for the last five fiscal years.



FINANCIAL SECTION



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 123 • 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, 2016, 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 misstatements 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 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, 2016, 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 combined total of receipts, disbursements, and changes in cash balances for all county funds of Muskogee County, for the year ended June 30, 2016, in accordance with the basis of accounting described in Note 1.

Other Matters

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 October 10, 2018, 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

October 10, 2018

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, 2016

	Beginning Cash Balances July 1, 2015	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2016
Combining Information:						
Major Funds:						
County General	\$ 1,834,572	\$ 6,154,947	\$ 962,776	\$ 697,501	\$ 5,400,296	\$ 2,854,498
Highway Cash	4,056,833	4,332,797	408,350	19,600	3,829,236	4,949,144
County Health	2,228,961	1,650,316	-	-	1,002,815	2,876,462
Resale Property	1,168,874	533,518	-	-	730,068	972,324
County Sinking	175,702	45,319	-	-	210,500	10,521
General Obligation Bonds	317,064	75,216	-	289,573	88,280	14,427
GO Bonds - BOK Servicing Agreement	1,472,093	1,049,029	289,573	-	1,873,237	937,458
Sheriff Service Fee Cash Fund	280,897	645,987	90,846	-	852,164	165,566
Muskogee City/County Detention -Sheriff's Department	214,610	1,119,275	168,561	-	1,270,919	231,527
County Use Tax	1,744,109	411,769	-	-	60,900	2,094,978
County Sales Tax/Sheriff	618,400	1,958,524	145,175	3,000	2,134,292	584,807
County Bridge and Road Improvement	3,275,552	412,165	-	158,367	49,373	3,479,977
Muskogee County Sales Tax/Highway	2,246,600	2,027,341	23,340	-	1,884,853	2,412,428
Firefighters Cash/Sales Tax	1,880,099	1,155,617	-	-	930,243	2,105,473
Rainy Day Fund	876,821	4,085,955	-	962,776	-	4,000,000
Emergency Management Performance Grant/ST	38,470	19,594	-	-	7,556	50,508
Remaining Aggregate Funds	518,224	663,533	54,921	-	781,628	455,050
Combined Total - All County Funds, as Restated	\$ 22,947,881	\$ 26,340,902	\$ 2,143,542	\$ 2,130,817	\$ 21,106,360	\$ 28,195,148

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, 2016**

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.

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

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.

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 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, or travel, or for capital expenditures.

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

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 resolution.

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

Rainy Day Fund – accounts for collections from the sale of County property and disbursed for 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, 2016**

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 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.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 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.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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; 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, 2016, and charges for the fiscal year then ended are as follows:

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Bond	Interest Rates	Beginning Balance	Reduction	Ending Balance	Amount due within one year
County Lmtd Tax Bonds 1999, Series A	5.125% - 5.4%	\$300,000	\$80,000	\$220,000	\$80,000
County Lmtd Tax Bonds 2005, Series A	6.00% - 5.00%	425,000	425,000	-	-
County Lmtd Tax Bonds 1997, Series B	7.00% - 6.00%	530,000	530,000	-	-
County Lmtd Tax Bonds 1999, Series E	6.45% - 7.00%	315,000	315,000	-	-
County Lmtd Tax Bonds 2000, Series B	7.50% - 7.00%	635,000	105,000	530,000	105,000
County Lmtd Tax Bonds 2004, Series B	7.40% - 7.30%	550,000	135,000	415,000	135,000
County Lmtd Tax Bonds 2006, Series A	4.50% - 6.00%	280,000	40,000	240,000	40,000
County Lmtd Tax Bonds 2009, Series A	5.40% - 6.75%	280,000	30,000	250,000	30,000
GO Lmtd Tax Taxable Refunding Bonds of 2010	3.25% - 5.00%	200,000	200,000	-	-
		<u>\$ 3,515,000</u>	<u>\$ 1,860,000</u>	<u>\$ 1,655,000</u>	<u>\$ 390,000</u>

During fiscal year 2016, payments included \$1,860,000 principal, \$191,929 interest, \$117,054 returned to business and \$3,034 agent fees.

Annual debt service requirements to maturity for general obligation bonds, including interest of \$286,136, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$390,000	\$100,915	\$490,915
2018	390,000	76,496	466,496
2019	380,000	51,630	431,630
2020	175,000	26,745	201,745
2021	180,000	15,395	195,395
2022-2024	140,000	14,955	154,955
Total	<u>\$1,655,000</u>	<u>\$286,136</u>	<u>\$1,941,136</u>

E. Sales Tax

On November 8, 2005, Muskogee County voters approved an 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,

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 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, 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.

F. 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 \$177,376 of ad valorem taxes abated under this program for the fiscal year ended June 30, 2016.

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. 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

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

proportionally among the counties making claims for reimbursement for loss of revenue for school district exemptions.

G. Interfund Transfers

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

- \$962,776 was transferred from the Rainy Day Fund to the County General Fund to meet requirements of appropriations in accordance with 68 O.S. § 3021.
- \$671,618 was transferred from the County General Fund for the reimbursement of payroll matching. The transfers were made to the following funds:

Fund	Amount
Highway Cash	\$273,323
Sheriff Reward Revolving	\$5,206
Muskogee City/County Detention Center - Sheriff's Department	\$155,836
County Sales Tax/Sheriff	\$145,175
Sheriff Service Fee Cash Fund	\$90,846
County Clerk Lien Cash Fund	\$1,232

- \$158,367 was transferred from the County Bridge and Road Improvement fund; \$135,027 went to the Highway Cash fund and \$23,340 was transferred to the Muskogee County Sales Tax/Highway fund for reimbursement of expenditures for bridge and road projects in Muskogee County.
- \$19,600 was transferred from the Highway Cash fund to the Sheriff Reward Revolving fund for reimbursement of the Trash Cop salary.
- \$3,000 was transferred from the County Sales Tax/Sheriff fund to the Sheriff Reward Revolving fund for reimbursement of the Trash Cop salary.
- \$12,725 was transferred from the Crisis Intervention Center Fund (a trust and agency fund) to the Muskogee City/County Detention Center - Sheriff's Department fund for reimbursement of expenditures for salary purposes.
- \$25,883 was transferred from the General Fund to the Sheriff Patrol Cash Fund for fiscal year 2016 appropriations.
- \$289,573 was transferred from the General Obligation Bonds fund to the GO Bonds - BOK Servicing Agreement fund per the servicing agreement.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

H. Restatement of Fund Balance

During the fiscal year, the County had a reclassification of funds. Juvenile Drug Court fund was reclassified as a county fund and represents maintenance and operation expenditures of the juvenile drug court.

Prior year ending balance, as reported	\$22,944,631
Funds reclassified to County Funds:	
Juvenile Drug Court reclassified from a Trust and Agency Fund to a County Fund	<u>3,250</u>
Prior year ending balance, as restated	<u>\$22,947,881</u>

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, 2016**

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 2,228,961	\$ 2,228,961	\$ -
Less: Prior Year Outstanding Warrants	(69,331)	(69,331)	-
Less: Prior Year Encumbrances	(10,811)	(8,583)	2,228
Beginning Cash Balances, Budgetary Basis	2,148,819	2,151,047	2,228
Receipts:			
Ad Valorem Taxes	1,161,585	1,285,923	124,338
Charges for Service	362,065	317,151	(44,914)
Intergovernmental Revenues	-	2,328	2,328
Miscellaneous Revenues	-	44,914	44,914
Total Receipts, Budgetary Basis	1,523,650	1,650,316	126,666
Expenditures:			
Health and Welfare	3,672,469	1,114,159	2,558,310
Total Expenditures, Budgetary Basis	3,672,469	1,114,159	2,558,310
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	2,687,204	\$ 2,687,204
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		94,693	
Add: Current Year Outstanding Warrants		94,565	
Ending Cash Balance		\$ 2,876,462	

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, 2016

	Beginning Cash Balances July 1, 2015	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2016
Remaining Aggregate Funds:						
Sheriff Reward Revolving	\$ 4,675	\$ 11,030	\$ 27,806	\$ -	\$ 30,179	\$ 13,332
Muskogee City County Detention Grant 2	71	-	-	-	-	71
County Clerk Lien Cash Fund	30,086	31,510	1,232	-	33,585	29,243
Treasurer Mortgage Certification Fee	6,708	10,335	-	-	8,800	8,243
Sheriff Patrol Cash Fund	42,810	576	25,883	-	10,787	58,482
Assessor Visual Inspection and County Assessor Revolving Fund	40,694	6,798	-	-	1,865	45,627
Sheriff Commissary Fund	103,552	399,404	-	-	442,647	60,309
County Clerk Records Management Preservation Fund	135,788	71,893	-	-	80,608	127,073
Sheriff Drug Forfeiture	66,838	9,259	-	-	49,809	26,288
Sheriff Training	2,124	-	-	-	576	1,548
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 Assitance Grant	24,007	10,000	-	-	33,999	8
Muskogee County K-9	6,859	7,575	-	-	2,015	12,419
Capital Improvement Plan	7,336	-	-	-	-	7,336
Emergency Management Grant Fund	344	3,802	-	-	-	4,146
Cash Drawer	530	-	-	-	-	530
County Water Improvement District 1	1,410	-	-	-	-	1,410
County Clerk Fire Department Reimbursement	1,910	19,240	-	-	2,900	18,250
Flood Plain Fund	2,250	300	-	-	832	1,718
Muskogee Fair Account	-	3,000	-	-	3,000	-
CDBG SUM	-	180	-	-	180	-
Grant Money Cherokee Nation	36,000	39,631	-	-	38,589	37,042
Juvenile Drug Court	3,250	39,000	-	-	41,257	993
Combined Total - Remaining Aggregate Funds, as Restated	\$ 518,224	\$ 663,533	\$ 54,921	\$ -	\$ 781,628	\$ 455,050

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

1. 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 present comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Receipts, Disbursements, and Changes in Cash Balances with Combining Information because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

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

2. Remaining County Funds

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

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.

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.

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.

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.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.

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.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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.

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.

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, 2016, 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 October 10, 2018.

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, 2016, 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: 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-012, 2016-013, 2016-015.

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: 2016-006, 2016-022.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2016-004.

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.

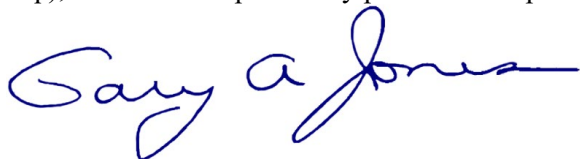
Muskogee County's Responses to Findings

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.



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

October 10, 2018

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 2016–001 – Inadequate County–Wide Internal Controls (Repeat Finding)

Condition: Through the process of gaining an understanding of the County’s internal control structure, it was noted that county-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

Cause of Condition: Policies and procedures have not been designed and implemented to address county-wide controls.

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 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: In 2016, Muskogee County began the process of holding quarterly meetings with all County officers in order to discuss and implement procedures related to internal controls, Risk Assessment, Monitoring, and a general exchange of pertinent information. These meetings have been held in 2016 and 2017. It is our understanding that the suggested criteria for these meetings is outlined on the Oklahoma State Auditor and Inspector’s website. We are in the process of implementing those at this time.

County Clerk: A procedure has been put in place for County Officers to meet quarterly regarding internal controls.

County Treasurer: We have implemented office meetings to discuss policies and procedures. I am open to Risk Assessment meetings to be conducted no less than quarterly, but would encourage bi-monthly meetings.

Criteria: Internal control is an integral component of an organization’s management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. County management is responsible for designing a county-wide internal control system comprised of Control

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

The Control Environment sets the tone of an entity and influences the control consciousness of its people. The Control Environment is the foundation for all other components of internal control and provides structure and discipline. Among the important elements of the control environment are the attitude, awareness, and actions of management, as well as those charged with governance, concerning internal control.

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.

Information and Communication is a component of internal control which should provide for a county to run and control its operations. A county must have relevant, reliable information, both financial and nonfinancial. The information should be recorded and communicated to management and others within the county who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. In addition, the county needs to make sure that the forms of communication are broad-based and that information technology management assures useful, reliable, and continuous communications.

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

Finding 2016–002 – Control Environment Regarding Financial Reporting (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 tested receipts, disbursements, and cash balances.

While verifying the financial statement, we noted the following concerns:

- During the fiscal year 2012 audit, it was noted that the County had transferred 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

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.

Additionally, on June 22, 2015, it was noted that the County entered into a servicing agreement that designated the 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. On February 24, 25 and 26, 2016 \$181,313, \$17,300 and \$90,960 respectively; were electronically wired to BOK. However, the amounts were not deducted from the General Obligation Bonds fund on the general ledger, but rather the County Treasurer added a BOK Trust Fund bank account to the general ledger.

During fiscal year ending June 30, 2016, the GO Bonds - BOK Servicing Agreement fund was not monitored by the County Treasurer's office or other county personnel and the balance of \$937,458 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 was 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 was made on August 15, 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. This condition still exists as of July 12, 2017.
- On July 22, 2015, a bond interest payment was issued to BOK in the amount of \$5,250 and on January 21, 2016, a principle, interest, and agent fee payment was issued in the amount of \$205,250. These amounts were issued from the General Obligation Bond appropriation ledger rather than the County Sinking appropriation ledger and were not marked paid on appropriation ledger and general ledger until October 15, 2016. Adjusting journal entries were proposed by auditors and the financial statement was corrected. However, the corrections to the General Obligation Bond tax fund and County Sinking fund have not been made on the general ledger as of July 12, 2017.
- While confirming investments for the fiscal year June 30, 2016, 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 investment ledger along with a certificate of deposit in the amount of \$14,889 that was opened on June 17, 2015. Additionally, it was noted that five (5) certificates of deposits had interest earned but not updated on investment ledger or general ledger.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.

Management Response:

County Treasurer: We are working to gather the documentation that has been requested by the Auditor's office. All of the information, particularly pertaining to outstanding bonds, is readily available through the BOK and this office. Clearly, we have not kept current data regarding the General Obligation Bonds. We have enlisted the services of BOK to manage these bonds, because I have no staff that is able to understand and record the information properly. Currently, there are two outstanding general obligation bonds. Muskogee County Bond Series 2000A and Muskogee County Bond Series 2000B. The current balance of the Series 2000A bond is \$30,920 and the Series 2000B bond has been paid in full and is held in the defeasance of the Bank of Oklahoma to be paid on the interest payment date set out in the body of the bond. We are working to correct this matter.

A County Health Department certificate of deposit was redeemed in December 2014. The Treasurer's office failed to deduct the amount of the CD from the Health Department's investment account on the general ledger, resulting in an overstatement of the ending balance and apportionments. This error was discovered and corrected in August 2016. This office will be more vigilant in the future.

In March 2015, a payment of \$100,360 from the County Sinking fund and the General Obligation Bonds fund was posted to the general ledger. A review of the general account bank statements from March through July 2015 noted a single Treasurer's check in the amount of \$100,360 clearing the bank account. This error resulted in an overstatement of disbursements and an understatement of the ending balance of this fund. The Treasurer, his staff, and a paid consultant will take measures to prevent errors of this kind in the future. Since this office is experiencing a resurgence, I believe that all staff is more aware of their responsibilities and are making greater use of software available.

Concerning principle, interest, and agent fee payments issued from the wrong ledger: adjustments were recommended by OSAI and the financial statement was corrected. Additional corrections to the General Obligation Bond Fund and the County Sinking fund have not been made to the general ledger. We plan to make these corrections in the immediate future. I believe that the General Obligation Bond activity is nearly at an end. We will continue to work on this matter until it is corrected.

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In response to this finding, I can only report that after an exodus of long-term staff and thrusting inexperienced people into important positions, many tasks were reinvented due to my existing staff not knowing what they were doing. I was forced to seek outside assistance to make corrections due to inefficient practices which spanned years. This finding is a perfect example of that inefficiency and is being addressed.

I want to state that I will review the audit finding input sheet weekly until I am satisfied that my office is in complete compliance with the findings.

Chairman of the Board of County Commissioners: It is the goal of Muskogee County to be diligent in the handling of taxpayer monies in the most efficient and upright way possible. In the findings, several accounting errors obviously occurred. The leadership takes this finding very seriously and we have made that clear to all parties involved. The Treasurer's office has acknowledged that these errors must be corrected and steps taken that there is no re-occurrence of these errors in the future.

In the interest of permanently correcting these errors, the Treasurer's office has employed the services of a Treasurer from another county. In the time she has been employed, she has been able to correct many of the problems and causes of the above-mentioned findings. We will continue to strive to improve in this matter.

Auditor Response: Bond information was not readily available in the County Treasurer's office for the audit period. The duplicate posting of \$100,360 has not been addressed on the general ledger.

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.

Finding 2016 – 003 – Inadequate Internal Controls and Noncompliance Over Operational Transfer (Repeat Finding)

Condition: During the audit period, the County made a transfer between a budgeted fund and a cash fund presented on the County Treasurer's general ledger.

- \$962,776 was transferred from the Rainy Day Fund to the County General fund to prevent non-payable warrants. This loan was not approved by the County Excise Board or repaid within the current fiscal year.

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

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Effect of Condition: These conditions resulted in noncompliance with state statute and could result in unrecorded transactions, undetected errors, and misappropriation of funds, inaccurate records, and incomplete information.

Recommendation: OSAI recommends that the County design and implement procedures to identify all temporary operational transfers and ensure these transfers are paid back within the fiscal year in which they were made. Additionally, transfers between funds should only be made for those limited specific purposes as set forth in state statutes and only upon the approval of the County Excise Board.

Management Response:

Chairman of the Board of County Commissioners: The transfer of funds from the Rainy Day Fund to the County General fund was not intended to be a loan, but rather, a permanent injection of funds into the County General fund. This transfer was intended to create a permanent cushion for unexpected costs that the County may face, including delays in receipts that lead to non-payable warrants. Since this transfer, during the budgeting process, \$1,000,000 is set aside in the general government account as a miscellaneous expense.

The reason the transfer was not presented to the County Excise Board for approval is because the monies involved did not originate from taxes collected, but rather, from the transfer of monies from a cash fund. The funds came from the proceeds of a real estate transaction and did not involve tax funds, millage rates, nor did it affect the budgets of any political subdivision. It was not apparent to anyone in leadership that this transfer would require excise board approval.

County Treasurer: At the direction of the Board of County Commissioners, the County Clerk directed this office to transfer the monies in question to the general fund to avoid fees associated with non-payable warrants. As I understood, these monies were not to be returned to the Rainy Day Fund or considered a loan in any regard. Our governing board believed, as did the County Clerk and myself, that this fund was created for occasions such as this. The money has not been paid back from the County General fund. We will be more attentive to situations like this in the future.

County Clerk: This money was placed into the County General fund to prevent non-payable warrants and borrowing from the County Treasurer. The decision was made by the Board of County Commissioners and they had planned to leave this money in the County General fund for this purpose.

Auditor Response: Initiation, approval, and repayment of transfers should be in accordance with 68 O.S. § 3021.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, all temporary transfer of funds should be paid back in a timely manner in accordance the state statute.

Effective internal controls would include procedures designed to ensure compliance with 68 O.S. § 3021.

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Title 68 O.S. § 3021, states in part, “Fourth: If at any time during the budget year it appears to the County Treasurer that there is temporarily insufficient money in a particular fund to meet the requirements of appropriation in the fund, the excise board, upon request of the county treasurer and upon notification to the county commissioners, may temporarily transfer money from one fund to any other fund with the permission of the county officer in charge of the fund that the money will be temporarily transferred from. No transfer shall be made from the debt service fund to any other fund except as may be permitted by the terms of the bond issue or applicable law. Any funds temporarily transferred shall be repaid to the original fund from which they were transferred within the fiscal year that the funds were transferred.”

Finding 2016–004 – Transfer of Funds by Purchase Orders and Noncompliance with State Statutes

Condition: During the review of disbursement records, it was noted that the County had issued forty-nine (49) purchase orders between budgeted funds and cash funds for various reasons, and subsequently those funds were miscellaneous received by the County Treasurer’s office.

Of the forty-nine (49) purchase orders issued forty-four (44) were from the County General fund in the amount of \$671,618 to reimburse the following funds for payroll matching. We also noted the decision to issue purchase orders from the County General fund to the cash funds for reimburse of payroll matching was not listed as an agenda item or documented in the Board of County Commissioners meeting minutes.

- \$273,323 was transferred to Highway Cash.
- \$5,206 was transferred to Sheriff Reward Revolving.
- \$155,836 was transferred to Muskogee County/City Detention – Sheriff’s Department.
- \$145,175 was transferred to County Sales Tax/Sheriff.
- \$90,846 was transferred to Sheriff Service Fee Cash Fund.
- \$1,232 was transferred to County Clerk Lien Cash Fund.

Four (4) purchase orders were issued for payroll reimbursement between the following funds:

- \$19,600 was transferred from the Highway Cash fund into the Sheriff Reward Revolving Fund.
- \$3,000 was transferred from County Sales Tax/Sheriff fund to the Sheriff Reward Revolving Fund.
- \$12,725 was transferred from the Crisis Intervention Center Fund (a trust and agency fund) to the Muskogee County/City Detention – Sheriff’s Department.

Additionally, one (1) purchase order issued for \$25,883 from the General Fund (Sheriff Account) to Sheriff Patrol Cash fund for FY16 appropriations.

In order for the apportionments and disbursements to not be materially misstated on the County’s financial statement, OSAI proposed that all aforementioned monies be taken out of each respective fund’s apportionments and disbursements as transfers.

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

Effect of Condition: These conditions could have resulted in noncompliance with state statutes, unrecorded transactions, undetected errors, and misappropriation of funds and inaccurate records.

Recommendation: OSAI recommends that the County design procedures to ensure all disbursements are allowable per state statutes. Additionally, any and all transfers between funds should be made for those limited specific purposes as set forth in state statutes.

Management Response:

Chairman of the Board of County Commissioners: As it relates to accounting issues caused by the transfers, perhaps, there was a better way to accomplish this that would not lead to an overstatement of revenues and expenditures. In that case, any advice by OSAI would be appreciated.

As discussion surrounding this strategy did occur during open session. There were multiple articles in the newspaper regarding this plan and its intent. It is unclear at this time if the records regarding these decisions have been misplaced, or if there was actually a parliamentary procedural error that prevented a formal approval with a motion, second, and formal vote. Nonetheless, it must be noted that all action leading to this strategic plan came about through the unanimous approval of the BOCC.

County Treasurer: The County Treasurer's office had little to do with the implementation of purchase orders identified in this finding, though little was done to question the way documents were created or executed. This office will be more vigilant to ensure that all disbursements are made for the receipt of goods or services in accordance with state statutes. Further, I will work with other elected offices to implement policies to ensure compliance.

County Clerk: The budget maker advised the County that all matching fund should be paid from each individual payroll account. This would allow the County to see how much each department was paying. All matching funds had been placed into the 20/5 and 20/8 accounts in the County General fund. Since we were not allowed to transfer from fund to fund, we used a purchase order to reimburse each payroll account for their matching funds. This will not be performed this way in the future. All matching funds are now appropriated into each departments account at the time that the budget is prepared.

Purchase orders were issued from each District and from the County Sheriff to pay their portion of the Environmental Officer's salary for the fiscal year. Each Commissioner and the Sheriff agreed to pay a portion. This has been changed and we are now paying his salary out of a General Fund Account. Additionally, the Crisis intervention funds were paid by purchase order to the Sheriff department due to the Sheriff's department no longer the administrator of this program.

Criteria: Effective internal controls require that management implement procedures to ensure that purchases are made in compliance with 19 O.S. § 1505.

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Title 68 O.S. § 3021, states in part, “Fourth: If at any time during the budget year it appears to the County Treasurer that there is temporarily insufficient money in a particular fund to meet the requirements of appropriation in the fund, the excise board, upon request of the county treasurer and upon notification to the county commissioners, may temporarily transfer money from one fund to any other fund with the permission of the county officer in charge of the fund that the money will be temporarily transferred from. No transfer shall be made from the debt service fund to any other fund except as may be permitted by the terms of the bond issue or applicable law. Any funds temporarily transferred shall be repaid to the original fund from which they were transferred within the fiscal year that the funds were transferred.”

Finding 2016 – 005 – 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 financial statement did not report accurate numbers.

The cash receipts and cash disbursements were reported as \$27,231,800 and \$20,860,577, respectively. A review of the records provided by the County Treasurer determined that the actual receipts and disbursements amounts were \$26,340,902 and \$21,106,360; an overstatement of receipts in the amount of \$890,907 and an understatement of disbursements in the amount of \$245,783.

Cause of Condition: Internal controls have not been designed and implemented to ensure proper individuals take responsibility 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.

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:

Chairman Board of County Commissioners: As mentioned in the finding, serious accounting errors were made in regard to monies recorded and actual receipts. The County Treasurer’s office has hired a consultant to properly implement internal controls to ensure mistakes like this will not happen in the future. Muskogee County will make a coordinated effort that will include all county officials to better track all expenditures and appropriations.

County Treasurer: The Treasurer has employed a consultant to ensure greater accuracy in the future.

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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 2016-006 – Inadequate Internal Controls Over the Collection, Apportionment, and Cash Balances Processes of the County Treasurer (Repeat Finding)

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

- One employee issues receipts, balances cash drawer, performs end of day overall balancing, and prepares deposits. 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.
- Monthly reports were not reconciled to the general ledger or submitted to OSAI in a timely manner.
- The calculation of the sales tax apportionments were not reviewed and evidenced by someone other than the preparer.
- The County Clerk was appropriating funds prior to the appropriations being approved by the Board of County Commissioners and apportioned by the County Treasurer's office.

Cause of Condition: Policies and procedures have not designed and implemented to separate key functions and processes among various employees in the County Treasurer's office, to have levels of review over the processes performed 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.

Recommendation: OSAI recommends designing and implementing internal controls that are critical functions of the office, and having management review and approval of accounting functions. Additionally, we recommend that monthly reports be filed monthly with OSAI and that all monies apportioned to funds in County Treasurer's office prior to funds are appropriated in the County Clerk's office.

Management Response:

County Treasurer: The issues of this finding have been resolved. All employees now receipt and take payments. End of day balancing is reviewed by two employees. In regard to no mail log maintained, all mail received is scanned and maintained within our system. I cannot commit to maintaining a mail log, due to not having enough manpower. Our monthly reports are now current and being completed monthly. Also, a second person will review sales tax apportionment calculations.

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Auditor Response: As of August 29, 2018, the last monthly report received was for the month of February 2018.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure proper accounting of funds, ledgers and reports should be reviewed by someone other than the preparer to reduce the risk of error or fraud. The duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be reviewed and documented.

Finding 2016–012 – Inadequate Segregation of Duties Over the Purchasing Process

Condition: Upon inquiry and observation of the County’s purchasing process, it was noted that there are no specific duties or procedures in place over the purchasing process. All employees have the ability to encumber purchase orders, approve encumbrances, review purchases for accuracy, print warrants, sign warrants, and distribute warrants.

Also, one employee performs the duties of assigning cash voucher claim numbers, reviewing claims for accuracy, printing cash voucher warrants, signing cash voucher warrants, and distributing cash voucher warrants.

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 purchasing 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 accounting functions of the office and having management review and approve accounting functions.

Management Response:

County Clerk: Policies and procedures have been changed to segregate the duties of the purchasing process.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of disbursements and/or transactions. To help ensure proper accounting of funds, the duties processing, authorizing, and distribution should be segregated.

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Finding 2016 – 013 – Inadequate Segregation of Duties Over the Payroll Process

Condition: Upon inquiry and observation of the County’s payroll disbursement process, it was noted one deputy enrolls new employees, reviews the payroll claims, calculates amounts to be paid to the employees and payroll related agencies, updates the master payroll file, issues payroll, prints payroll warrants, and removes terminated employees from payroll.

Furthermore, payroll entered into the computer system is 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: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends 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.

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

Management Response:

County Clerk: Policies and procedures have been changed. The payroll clerk is having another employee check over the payroll before she prints the warrants. All payroll warrants are now being signed by the County Clerk.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions to allow for prevention and detection of errors and abuse. To help ensure a proper accounting of funds, key functions within the payroll process such as the duties of processing, authorizing, and payroll distribution should be adequately segregated.

Finding 2016–015 – 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. They do not reconcile apportionments to appropriations, warrants registered to warrants issued, and balances of all funds monthly.

Additionally, while performing testwork multiple variances were noted between the County Clerk's disbursement data to the disbursements paid on the County Treasurer's financial statement for several funds.

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Upon further investigation it was noted that on June 28, 2016 warrants totaling \$227,004 were marked paid on the County Treasurer's appropriation ledger and subsequently on the County Clerk's appropriation ledger, but the general ledger was not updated until September 10, 2016 to reflect those paid disbursements.

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. OSAI also recommends that the general ledger be updated on a daily basis.

Management Response:

County Clerk: The County Treasurer's office has been unable to provide the County Clerk's office with the general ledger balances. They are in the process of trying to get this reconciled.

County Treasurer: We are in the process of balancing the general ledger to the appropriation ledger.

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 2016-022 – Inadequate Internal Controls Over the Schedule of Expenditures of Federal Awards (SEFA)

Condition: During our audit we identified federal programs that were not listed accurately on the County's Schedule of Expenditures of Federal Awards (SEFA). Federal expenditures were overstated by \$105,584.

The following misstatements were noted:

- The actual expenditures for the Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii, CFDA #14.228 were \$44,862 and the County reported \$0, resulting in an understatement of expenditures of \$44,862.
- The actual expenditures for the Disaster Grants - Public Assistance (Presidentially Declared Disasters), CFDA #97.036 were \$546,063 and the County reported \$679,832, resulting in an overstatement of the expenditures of \$133,769.
- The actual expenditures for the Emergency Management Performance Grants, CFDA #97.042 were \$7,556 and the County reported \$24,233, resulting in an overstatement of expenditures of \$16,677.

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Reported Total Expenditures of Federal Award	\$ 757,111
Add: Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CFDA 14.228)	44,862
Less: Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)	(133,769)
Less: Emergency Management Performance Grants (CFDA 97.042)	<u>(16,677)</u>
Actual Federal Expenditures of Federal Awards	<u>\$ 651,527</u>

Original SEFA Overstated by \$ 105,584

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 resulted in the erroneous reporting and a material misstatement of the County's SEFA and could result in a material noncompliance with federal regulations.

Recommendation: OSAI recommends county officials and department heads gain an understanding of federal programs awarded to 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 Board of County Commissioners: In the past one employee has been responsible for gathering information and reporting results on the SEFA Program. As indicated in your finding, mistakes were made and incorrect figures reported resulted in an understated total of \$105,584. We have made this problem know to the County Clerk's office, the County Treasurer's office and all other involved parties.

In the future we will make this a much more a collaborative effort and put policies and procedures in place to ensure that these mistakes will not be made again. We understand that communication and checks and balances must be adhered to and we understand the importance of accurate reporting in all areas. In addition, we will make the SEFA a discussion point in our meeting of Elected Officials which will occur every two months.

County Treasurer: The secretary of the Board of County Commissioners has been given the duty of preparing the SEFA. I am unaware of any information that is required of this office that has not been provided for completing this report. I will certainly do all that I can to ensure that any data that is needed will be provided in a timely manner.

County Clerk: The secretary of the Board of County Commissioners is in charge of the SEFA report.

Criteria: *Title 2 CFR 200 § 200.510, Financial Statements*, reads as follows:

- (a) *Financial statements.* The auditee must prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate,

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cash flows for the fiscal year audited. The financial statements must be for the same organizational unit and fiscal year that is chosen to meet the requirements of this part. However, non-Federal entity-wide financial statements may also include departments, agencies, and other organizational units that have separate audits in accordance with §200.514 Scope of audit, paragraph (a) and prepare separate financial statements.

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

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

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 2016–016 – Estimate of Needs Not Accurately Presented (Repeat Finding)

Condition: We noted in the 2016-2017 Estimate of Needs, that the cash disbursements on the budget was \$159,210 more for the County General fund than what was disbursed on the financial statement. Additionally, the ending balance in the Estimate of Needs for the County General fund was \$159,439 more than documented on the County's 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: OSAI recommends that management review the Estimate of Needs prior to approval to ensure that all exhibits are accurately presented.

Management Response:

Chairman Board of County Commissioners: The County is working toward accurate record keeping in all areas of County government. The County Treasurer's office has hired a consultant to help employees better understand the processes necessary to ensure that this occurs. The county has hired a new budget maker this year. These actions have helped with overall budget making to include an accurate estimate of needs and accurate presentation of the estimate of needs.

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County Treasurer: The County has secured services the services of a new budget maker. It is our hope and intention to provide more accurate figures for the next fiscal year. We have also implemented new procedures for our estimate of needs.

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.

Finding 2016–018 – Inadequate Internal Controls and Noncompliance Over the Inmate Trust Fund Checking Account and Sheriff Commissary Account (Repeat Finding)

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

- One employee inputs data into the commissary network, fills the commissary orders, deducts inventory from the system, and commissary product costs from inmate balances, prints checks, issues inmate debit cards, prepares deposits and reconciles bank statements.
- No evidence was provided that reconciliations were performed monthly.
- Inmate ledger balances are not being reconciled to the bank statements each month.
- Deposits are not made daily.
- The log of electronic cigarettes is not being reconciled.
- No documentation was retained to verify that commissary contract was renewed annually. The last contract on file was dated September 9, 2013. Additionally, the communication contract was not approved by the Board of County Commissioners.
- The Sheriff's office did not file an annual report for the Commissary Fund with the Board of County Commissioners by January 15th.

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 statute. 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:

- 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.
- 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.

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- Deposits should be made on a daily basis.
- Maintain an accurate inventory of the electronic cigarettes. This would include maintaining the number of units received, sold, and balance of units on hand. Further, the proceeds for the sale of electronic cigarettes should be reconciled to the number of unit sold and remitted to the cash fund from which the units were purchased.
- All contracts should be renewed and approved by the Board of County Commissioners annually.
- The Sheriff should file a report of the commissary with the County Commissioners by January 15th, of each year.

Management Response:

County Sheriff: This audit was for the period under the previous administration and staff; I took office January 2, 2017. Since then these duties have since been segregated among different employees. Additionally, the reconciliation of the Inmate Trust Fund Checking Account has been remedied by reconciling the ledger balances with the monthly bank statements. Deposits for the Inmate Trust Fund Checking Account and the Sheriff Commissary Account are now being made daily. There is now a log to maintain an accurate inventory for the electronic cigarettes and will now be reconciled with the amount ordered and purchased. The new commissary contract was renewed with a new commissary vendor in November 2017 and was approved by the Board of County Commissioners. The annual report will be done and filed with the Board of County Commissioners' Office by January 15, 2018.

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, bank reconciliations should be performed each month, collections deposited daily, inventory on hand should be reconciled to the inventory records and contracts should be approved by the Board of County Commissioners.

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."

Finding 2016-019 – Inadequate Internal Controls and Noncompliance Over Fixed Assets (Repeat Finding)

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

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No inventory list or documentation of an annual review was on file with the County Clerk's office for the following offices: County Clerk, County Sheriff, County Treasurer and the following fire departments: Muskogee, Brushy Mountain, Haskell, Keefeton, Mountain View, Oktaha, Summit, Wainwright, Warner, Webber Falls and Porum.

Additionally, the following fire departments did not have inventory cards or lists on file with the County Clerk's office: Boynton, Braggs, Buckhorn, Council Hill, Fort Gibson, Gooseneck Bend and Taft.

Cause of Condition: Policies and procedures have not been designed and implemented over the County's fixed assets to ensure compliance with state statutes.

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

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. OSAI also recommends inventory records be maintained and updated in the County Clerk's office in accordance with 19 O.S. § 178.2.

Management Response:

County Clerk: We now have a procedure in place for our Inventory Officer to check our inventory and sign off on it annually.

County Sheriff: This audit was for the time period of the previous administration and staff, I took office January 2, 2017. The inventory has been assigned to an employee and is updated according to purchases. The inventory list for the Muskogee County Sheriff's Office has been submitted to the County Clerk's office.

County Treasurer: We have an inventory list and have provided the same to the County Clerk. This issue has now been resolved.

Chairman: Moving forward I will bring it to the attention of all entities mentioned in this finding, that an inventory list, and documentation of an annual review, must be on file with the County Clerk's office. In addition, I will confer with Eastern Oklahoma Development District to make sure they're rural fire coordinator is aware of this need, so he can implement his own procedures to insure that these lists are available and current.

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, machinery and equipment belonging to the county or leased or otherwise let to it or to any

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

Title 19 O.S. § 178.2 states, “It shall be and is hereby made the duty of every county officer, board, commission, or department, and by record directive of the board of county commissioners may be made the duty of any employee of the board of county commissioners subject to summary discharge and removal by the board, to conform in all respects and be amenable to all uniform resolutions adopted by their respective boards of county commissioners directing the taking, recording, maintaining and reporting inventories of properties in their respective custody in accordance with the provisions of this act. It shall be the duty and responsibility of each elected county official to create and maintain inventory records of said office. Such inventory shall be filed with the county clerk.”



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