



MUSKOGEE COUNTY

Financial Audit

For the fiscal year ended June 30, 2018

Cindy Byrd, CPA
State Auditor & Inspector

**MUSKOGEE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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Cindy Byrd, CPA | State Auditor & Inspector

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January 7, 2021

TO THE CITIZENS OF
MUSKOGEE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Muskogee County, Oklahoma for the fiscal year ended June 30, 2018. 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 "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



**MSUKOGEE COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

Rob Frazier

County Treasurer

Kelly Garrett

Court Clerk

Paula Sexton

District Attorney

Orvil Loge

**MUSKOGEE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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FINANCIAL SECTION

Independent Auditor's Report

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

Report on the Financial Statement

We have audited the 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, 2018, and the related notes to the financial statement, which collectively comprise the County's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Muskogee County as of June 30, 2018, 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, 2018, in accordance with the basis of accounting described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined total of all county funds on the financial statement. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the remaining supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and is not a required part of the financial statement.

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

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 or County Health Fund. Although not a part of the financial statement, such information is an integral part of the regulatory presentation for county government.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2020, on our consideration of Muskogee County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Muskogee County's internal control over financial reporting and compliance.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

December 7, 2020

REGULATORY BASIS FINANCIAL STATEMENT

MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Beginning Cash Balances July 1, 2017	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2018
Combining Information:						
County General	\$ 3,501,739	\$ 6,302,514	\$ 307	\$ 544,125	\$ 6,106,451	\$ 3,153,984
Highway Cash	4,311,149	4,260,200	1,500,000	38,241	3,015,015	7,018,093
County Health	3,055,523	1,630,151	-	132	1,617,466	3,068,076
Resale Property	1,082,321	569,885	-	-	457,800	1,194,406
County Sinking	58,339	40,790	-	-	-	99,129
General Obligation Bonds	4,306	7,405	-	-	-	11,711
GO Bonds - BOK Servicing Agreement	309,700	142,652	-	-	451,446	906
Sheriff Service Fee Cash Fund	102,316	421,332	-	-	410,543	113,105
Muskogee City/County Detention - Sheriff's Department	127,103	1,703,374	-	-	1,330,189	500,288
County Use Tax	2,390,099	491,547	-	-	423,853	2,457,793
County Sales Tax/Sheriff	524,230	1,880,782	-	-	1,872,651	532,361
County Bridge and Road Improvement	3,685,004	385,432	-	45,000	497,352	3,528,084
Muskogee County Sales Tax/Highway	2,513,899	2,216,069	45,000	-	1,948,727	2,826,241
Firefighters Cash/Sales Tax	2,196,762	1,143,442	-	175	889,411	2,450,618
Rainy Day Fund	3,914,020	-	-	1,500,000	169,171	2,244,849
Emergency Management Performance Grant/ST	6,760	26,126	-	-	15,907	16,979
Sheriff Reward Revolving	19,877	725	38,241	-	44,738	14,105
Muskogee City County Detention Grant 2	71	-	-	-	-	71
County Clerk Lien Cash Fund	32,623	28,949	-	-	28,368	33,204
Treasurer Mortgage Certification Fee	5,128	10,280	-	-	10,300	5,108
Sheriff Patrol Cash Fund	41,011	-	10,000	-	17,510	33,501
Assessor Visual Inspection and County Assessor Revolving Fund	37,179	5,076	-	-	25,866	16,389
Sheriff Commissary Fund	82,271	362,528	-	-	320,800	123,999
County Clerk Records Management Preservation Fund	111,911	71,889	-	-	105,283	78,517
Sheriff Drug Forfeiture	55,423	4,166	-	-	40,868	18,721
Sheriff Training	1,548	-	-	-	-	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 Assistance Grant	7	-	-	-	-	7
Muskogee County K-9	9,908	-	-	-	5,359	4,549
Capital Improvement Plan	7,336	-	-	-	-	7,336
Emergency Management Grant Fund	4,146	1,000	-	-	-	5,146
Cash Drawer	530	-	-	-	-	530
County Water Improvement District 1	1,410	-	-	-	-	1,410
County Clerk Fire Department Reimbursement	18,373	9,800	-	-	1,296	26,877
Flood Plain Fund	1,718	900	-	-	-	2,618
Muskogee Fair Account	3,000	-	-	-	3,000	-
Grant Money Cherokee Nation	15,039	-	-	-	15,039	-
Juvenile Drug Court	-	42,250	-	-	39,000	3,250
County Economic Development Fund	1,266	9,375	-	-	-	10,641
Sales Tax (STRCF)	-	-	534,125	-	-	534,125
CDBG-W/S	-	266,916	-	-	-	266,916
Safe Oklahoma Grant	-	48,800	-	-	27,859	20,941
Combined Total - All County Funds	\$ 28,234,027	\$ 22,084,355	\$ 2,127,673	\$ 2,127,673	\$ 19,891,268	\$ 30,427,114

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, 2018**

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, officers' 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.

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

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

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

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

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

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

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

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

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

Rainy Day Fund – accounts for collections from the sale of County property and disbursed for 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, 2018**

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 state 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.

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.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Justice Assistance Grant – accounts for 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 Firefighters Sales Tax Board. Disbursements are for the payroll of a County Clerk employee that handles the administrations of the fire departments' disbursements.

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

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

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.

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

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

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

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

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 with all other funds included in the audit presented in the aggregate in a combining statement. However, the County has elected to present all funds included in the audit in the Statement of Receipts, Disbursements, and Changes in Cash Balances—Regulatory Basis.

D. Budget

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

E. Cash and Investments

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

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

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

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

2. Ad Valorem Tax

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule 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, 2018**

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, 2018, and charges for the fiscal year then ended are as follows:

Bond	Interest Rates	Beginning	Reduction	Ending
		Balance		Balance
County Lmt'd Tax Bonds 2000, Series B	7.50% - 7.00%	\$ 425,000	\$ 425,000	\$ -
		\$ 425,000	\$ 425,000	\$ -

During fiscal year 2018, payments included \$425,000 for principal, \$25,996 for interest, and \$450 for agent fees.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

E. Sales Tax

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

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

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

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

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.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The County had \$286,349 of ad valorem taxes abated under this program for the fiscal year ended June 30, 2018.

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 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:

- \$534,125 was transferred from the County General fund to the Sales Tax (STRCF) fund to close out sales tax revolving monies from the County General fund.
- \$10,000 was transferred from the County General fund to the Sheriff Patrol Cash Fund for fiscal year 2018 appropriations.
- \$132 was transferred from the County Health fund to the County General fund for reimbursement for publications.
- \$175 was transferred from the Firefighters Cash/Sales Tax fund to the County General fund for reimbursement for bid advertising.
- \$45,000 was transferred from the County Bridge and Road Improvement fund to the Muskogee County Sales Tax/Highway fund for reimbursement for road projects.
- \$38,241 was transferred from the Highway Cash fund to the Sheriff Reward Revolving fund for reimbursement of the Trash Cop salary.
- \$1,500,000 was transferred from the Rainy Day Fund to the Highway Cash fund to reimburse the Commissioners' Districts for diverted FEMA funds to cover costs of road damages.

SUPPLEMENTARY INFORMATION

MUSKOGEE COUNTY, OKLAHOMA
NOTE TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

1. Budgetary Schedules

The Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General Fund and Health Fund have 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 General Fund and 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 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.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. DEPARTMENT OF DEFENSE			
Direct Grant:			
Payment to States in Lieu of Real Estate Taxes			
Community Development Block Grant	12.112		\$ 44,823
Total U.S. Department of Defense			<u>44,823</u>
U.S. DEPARTMENT OF INTERIOR			
Direct Grant:			
Payment In Lieu of Taxes	15.226		122,658
Total U.S. Department of Interior			<u>122,658</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through Oklahoma Department of Emergency Management			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4222	99,840
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4256	258,729
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4315	278,170
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4324	236,474
Total Disaster Grants - Public Assistance (Presidentially Declared Disasters)			<u>873,213</u>
Emergency Management Performance Grant	97.042		<u>15,907</u>
Total U.S. Department of Homeland Security			<u>889,120</u>
Total Expenditures of Federal Awards			<u>\$ 1,056,601</u>

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Muskogee County, and is presented on the *cash basis of accounting*. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.

Indirect Cost Rate

Muskogee County has elected to not use the 10 percent de minimis cost rate allowed for by 2 CFR§ 200.414(f).

Eligible Expenditures Incurred in the Prior Fiscal Year

On February 10, 2016, the President of the United States approved a Major Disaster Declaration for Muskogee County in response to Oklahoma Severe Winter Storms and Flooding from December 25, 2015 to January 5, 2016. The County incurred \$111,641 in eligible expenditures in the prior fiscal year ending June 30, 2016 and \$147,087 in prior fiscal year ending June 30, 2017. The Federal Emergency Management Agency approved all project worksheets for this disaster in the fiscal year ending June 30, 2018. Therefore, expenditures on the schedule of expenditures of federal awards for CFDA #97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters) will include \$258,728 in eligible expenditures incurred in the fiscal year ending June 30, 2016 and June 30, 2017 and all eligible expenditures that were incurred in the fiscal year ending June 30, 2018.

On May 26, 2017, the President of the United States approved a Major Disaster Declaration for Muskogee County in response to Oklahoma Severe Storms, Tornadoes and Flooding from April 28, 2017 to May 2, 2017. The County incurred \$278,170 in eligible expenditures in the prior fiscal year ending June 30, 2017. The Federal Emergency Management Agency approved all project worksheets for this disaster in the fiscal year ending June 30, 2018. Therefore, expenditures on the schedule of expenditures of federal awards for CFDA #97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters) will include \$278,170 in eligible expenditures incurred in the fiscal year ending June 30, 2017 and all eligible expenditures that were incurred in the fiscal year ending June 30, 2018.

On July 25, 2017, the President of the United States approved a Major Disaster Declaration for Muskogee County in response to Oklahoma Severe Storms, Tornadoes, Straight-line Winds, and Flooding from May 16, 2017 to May 20, 2017. The County incurred \$177,655 in eligible expenditures in the prior fiscal year ending June 30, 2017. The Federal Emergency Management Agency approved all project worksheets for this disaster in the fiscal year ending June 30, 2018. Therefore, expenditures on the schedule of expenditures of federal awards for CFDA #97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters) will include \$177,655 in eligible expenditures incurred in the fiscal year ending June 30, 2017 and all eligible expenditures that were incurred in the fiscal year ending June 30, 2018.

INTERNAL CONTROL AND COMPLIANCE SECTION

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

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

We have audited, in accordance with 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 Statement of Receipts, Disbursements, and Changes in Cash Balances (with Combining Information) of Muskogee County, Oklahoma, as of and for the year ended June 30, 2018, 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 December 7, 2020.

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, 2018, 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 questioned costs, 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 questioned costs to be material weaknesses: 2018-001, 2018-004, 2018-005, 2018-006, 2018-011, and 2018-013.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2018-007 and 2018-008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muskogee County's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Muskogee County's Response to Findings

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

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.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

December 7, 2020

**Independent Auditor's Report on Compliance for Each Major Federal Program
and on Internal Control Over Compliance Required by
the Uniform Guidance**

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

Report on Compliance for Each Major Federal Program

We have audited the compliance of Muskogee County, Oklahoma, with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Muskogee County's major federal program for the year ended June 30, 2018. Muskogee County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muskogee County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Muskogee County's compliance.

Opinion on Each Major Federal Program

In our opinion, Muskogee County, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.



Report on Internal Control Over Compliance

Management of Muskogee County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Muskogee County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Muskogee County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-015, 2018-016, and 2018-014, that we consider to be material weaknesses.

Muskogee County's Response to Findings

Muskogee County's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Muskogee County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S., section 24A.1 et seq.), and shall be open to any person for inspection and copying.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

December 7, 2020

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION 1—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:..... Adverse as to GAAP; unmodified as to statutory presentation

Internal control over financial reporting:

- Material weakness(es) identified?..... Yes
- Significant deficiency(ies) identified? Yes

Noncompliance material to financial statements noted?..... No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?..... Yes
- Significant deficiency(ies) identified? None reported

Type of auditor's report issued on
compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with 2 CFR § 200.516(a) of the Uniform Guidance? No

Identification of Major Programs

CFDA Number(s)

97.036

Name of Federal Program or Cluster

Disaster Grants - Public Assistance
(Presidentially Declared Disasters)

Dollar threshold used to distinguish between
Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?..... No

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION 2—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 2018-001 – lack of County–Wide Internal Controls (Repeat Finding 2008-022, 2009-021, 2010-023, 2011-001, 2012-001, 2013-001, 2014-001, 2015-001, 2016-001, 2017-001)

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 the risks of the County.

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

Recommendation: The Oklahoma State Auditor & Inspector’s Office (OSAI) recommends that the County design and implement a system of county-wide procedures to identify and address risks related to financial reporting and to ensure that information is communicated effectively. OSAI also recommends that the County design and implement monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the County’s policies and procedures handbook.

Management Response:

Chairman of the Board of County Commissioners: Muskogee County is now having and documenting regularly scheduled risk assessment meetings.

County Treasurer: Since taking office in July 2019 all County officials have met and discussed findings. We are now holding risk assessment meetings to discuss the operations of the county as a whole to identify and address any issues that may have or may arise.

County Clerk: Muskogee County is now having risk assessment meetings.

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

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

Definition of Internal Controls

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

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

Components, Principles, and Attributes

Control Environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

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

Information and Communication - The quality information management and personnel communicate and use to support the internal control system.

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

Finding 2018-004 – Transfer of Funds by Purchase Orders and Noncompliance with State Statutes (Repeat Finding 2016-004, 2017-004)

During the review of disbursements, it was noted that the County had issued twelve (12) purchase orders between cash funds for various reasons, and subsequently those funds were miscellaneous receipted by the County Treasurer's office which resulted in overstatements of both revenues and expenditures in the amount of \$1,596,230.

Two (2) purchase orders were issued for reimbursement within the same fund:

- One (1) was issued for \$2,511 from the County Health fund to the County Health fund.
- One (1) was issued for \$171 from County General fund to another County General fund account.

Three (3) purchase orders were issued for \$38,241 from Highway Cash fund to Sheriff Reward Revolving fund for environmental deputy salary.

Six (6) purchase orders were issued for various reimbursement reasons between the following funds:

- One (1) was issued for \$132 from the County Health fund to the County General fund for publication.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

- One (1) was issued for \$175 from Firefighter Cash/Sales Tax fund to the County General fund for bid advertising.
- One (1) was issued for \$45,000 from the County Bridge and Road Improvement fund to the Muskogee County Sales Tax/Highway fund for road project.
- Three (3) were issued for \$1,500,000 from the Rainy Day Fund to the Highway Cash fund to reimburse districts for diverted FEMA funds.

Additionally, one (1) purchase order for \$10,000 from the County General fund (Sheriff Account) to Sheriff Patrol Cash Fund for fiscal year 2018 appropriations.

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 resulted in noncompliance with state statutes, unrecorded transactions, undetected errors, and inaccurate records and could result in misappropriations of funds.

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: We are now aware that it is unacceptable to issue purchase orders internally. There will be an effort going forward to use error forms or transfers to deal with problematic transactions.

County Treasurer: These errors were made prior to me taking office in July 2019, this administration immediately began implementing policies and procedures to address various issues. A procedure is now in place to recognize and address improper transactions.

County Clerk: We have changed the procedures for transferring these funds by using the error correction form.

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

Compliance Objectives

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

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Further, GAO Standards – Principle 6 – Defined Objectives and Risk Tolerances - 6.05 states:

Definitions of Objectives

Management considers external requirements and internal expectations when defining objectives to enable the design of internal control. Legislators, regulators, and standard-setting bodies set external requirements by establishing the laws, regulations, and standards with which the entity is required to comply. Management identifies, understands, and incorporates these requirements into the entity's objectives. Management sets internal expectations and requirements through the established standards of conduct, oversight structure, organizational structure, and expectations of competence as part of the control environment.

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

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 2018-005 – Control Environment Regarding Financial Reporting (Repeat Finding 2013-004, 2014-004, 2015-004, 2016-002, 2017-005)

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 out monies from the General Obligation Bonds fund to a financial institution in accordance with a servicing agreement dated July 2010. The servicing agreement designates the Bank of Oklahoma (BOK) as the servicing agent to receive all note payments, bank fees, administrative fees, and default payments on certain outstanding bonds, as well as, to pay principal and interest on the outstanding debt.

Additionally, on June 22, 2015, it was noted that the County entered into a servicing agreement that designated the Bank of Oklahoma (BOK) as the servicing agent to receive all note payments,

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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 and was still on the general ledger at June 30, 2018.

During fiscal year ending June 30, 2018, the GO Bonds - BOK Servicing Agreement fund was not monitored by the County Treasurer's office or other county personnel and the balance of \$906 was not presented on the County's financial statement. Adjusting journal entries were proposed by auditors and the financial statement was corrected.

- A County Clerk Records Management Preservation certificate of deposit in the amount of \$31,398 was redeemed and a miscellaneous receipt issued October 12, 2017. The funds were reapportioned to the County Clerk Records Management Preservation Fund in the same month. The County Treasurer failed to deduct this amount from the RMPCF Investment account, but the \$31,398 was deposited into the general bank account and apportioned to the County Clerk Records Management Preservation Fund which resulted in a \$31,398 overstatement of the County Clerk's Records Management Preservation fund ending balance and apportionments. Adjusting journal entries were proposed by auditors and the financial statement was corrected.
- 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 LTD tax 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 for fiscal year 2016. However, the corrections made on the general Ledger on October 15, 2016 were not accurate. The \$210,500 was marked paid out of the General Obligation LTD tax fund rather than the County Sinking fund. Adjusting journal entries were proposed by auditors and the financial statements were corrected and was corrected June 28, 2019 on the general ledger.
- While confirming investments for the fiscal year June 30, 2018, it was noted that a certificate of deposit in the amount of \$15,152 that was originally opened on June 17, 2015 was not recorded on the general ledger. Additionally, it was noted that six (6) certificates of deposits had interest incurred but not updated on investment ledger or general ledger.

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. Additionally, this could result in the misappropriation of county funds.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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:

Chairman of the Board of County Commissioners and County Treasurer: These errors were made prior to current County Treasurer taking office July 1, 2019. The current administration immediately implemented policies and procedures to address these issues and others.

- The \$289,573 bank account created under BOK on the general ledger has been reviewed and corrected on the general ledger.
- The \$31,398 certificate of deposit error has been corrected.
- This error had been corrected by the prior administration on June 28, 2019.
- All certificate of deposits that had no interest recorded on the general ledger have been corrected and all interest is now recorded for all certificate of deposits on the general ledger.

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

Definition of Internal Controls

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

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

Components, Principles, and Attributes

Control Environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

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

Internal Control System Monitoring

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

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Additionally, GAO Standards - Principle 10 – Design Control Activities: 10.03 states in part:

Accurate and timely recording of transactions

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

Finding 2018-006 – Lack of Internal Controls Over Presentation of Financial Statement (Repeat Finding 2013-013, 2014-012, 2015-013, 2016-005, 2017-006)

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

The beginning balance, receipts apportioned, transfers in, transfers out, cash disbursements and ending balance were reported as were reported as \$28,021,162, \$23,532,363, \$1,761,730, \$1,160,836, \$21,059,927 and \$31,094,492 respectively. review of the records provided by the County Treasurer determined that the actual beginning balance, receipts apportioned, transfers in, transfers out, disbursements and ending balance amounts were \$28,234,027, \$22,084,355, \$2,127,673, 2,127,673, \$19,891,268 and \$30,427,114; this resulted in an understatement of beginning balance in the amount of \$212,865; an overstatement of receipts apportioned in the amount of \$1,448,008; an overstatement in transfer in and out in the amount of \$365,943 and \$966,837 respectively; an overstatement of disbursements in the amount of \$1,168,659; and an overstatement of the ending balance in the amount of \$667,378.

Additionally, we noted that the financial statement was not submitted to the Board of County Commissioners for acceptance and approval.

Cause of Condition: Internal controls have not been designed and implemented to ensure proper individuals take responsibility to accurately report beginning balance, cash receipts, transfers in, transfers out, disbursements, and ending balance on the financial statement.

Effect of Condition: These conditions resulted in inaccurate reporting of beginning balance, receipts apportioned, transfers in, transfers out, disbursements and ending balance on the financial statement.

Recommendation: OSAI recommends the County design and implement procedures to ensure the beginning balance, receipts apportioned, transfers in, transfers out, disbursements and ending balance are reported accurately on the financial statement.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Management Response:

Chairman Board of County Commissioners: The new County Treasurer has implemented internal controls and has designated individuals to record and prepare the financial statements.

County Treasurer: This error occurred prior to my administration which started July 1, 2019. I have implemented internal controls and have designated individuals for the recording of receipts and disbursements on the financial statement.

Criteria: The County is required to present a financial statement for each fiscal year ended June 30. Title 19 O.S. § 171 states, in part, "Unless the county elects to prepare its financial statement in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board, the county shall present their financial statements in a regulatory basis of accounting."

The limitations of the auditor are described in the American Institute of Certified Public Accountants Clarified Statements on Auditing Standards AU-C § 210, which states, in part:

“The concept of an independent audit requires that the auditor's role does not involve assuming management's responsibility for the preparation and fair presentation of the financial statements or assuming responsibility for the entity's related internal control and that the auditor has a reasonable expectation of obtaining the information necessary for the audit insofar as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an independent audit.”

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

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

- One employee issues receipt, balances cash drawer, performs end of day overall balancing, and prepares deposits. Additionally, no one verifies the start up cash.
- The Treasurer’s office does not prepare and maintain a mail log.
- Sales tax apportionments are not recalculated by someone other than the preparer.
- Bank reconciliations are not reviewed by someone other than the preparer.
- No one views the audit log.
- Monthly reports are not submitted monthly.

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

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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.

Management Response:

County Treasurer: These errors were made prior to this administration. Upon taking office in July 2019, we began implementing policies and procedures to correct and/or create segregation of duties and verifications. Each of these errors have been corrected or we are in the process of implementing the changes.

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

Segregation of Duties

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

Additionally, Principal 10 - Segregation of Duties states:

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

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

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

Finding 2018-008 – Internal Controls and Noncompliance Over Apportionment of Motor Vehicle Tax Collections (Repeat Finding 2017-008)

Condition: Upon inquiry, observation, and testing of motor vehicle tax collections the following was noted:

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

- \$132,917 from motor vehicle collections county road fund were erroneously apportioned into the County General fund rather than Highway Cash fund.
- \$6,604 from motor vehicle tax collections cities and towns were erroneously apportioned into the Highway Cash fund rather than Cities and Towns fund, a trust and agency fund.

Cause of Condition: Policies and procedures have not been designed and implemented to verify or review that revenues received were apportioned correctly.

Effect of Condition: This condition resulted in noncompliance with state statute, undetected errors and misappropriation of funds.

Recommendation: OSAI recommends that the duties of allocating and apportioning motor vehicle tax collections be reviewed and documented by someone other than the preparer.

Management Response:

County Treasurer: This error was made prior to my administration. I took office July 2019, and we immediately began addressing errors, this has been corrected.

Chairman of the Board of County Commissioners: This apportionment mistake took place prior to the currently elected County Treasurer. Our new Treasurer has corrected this issue; monies have been moved back to the proper accounts.

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

Internal Control System Monitoring

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

Title 47 O.S. § 1104 states, “Unless otherwise provided by law, all fees, taxes and penalties collected or received pursuant to the Oklahoma Vehicle License and Registration Act or Section 1-101 et seq. of this title shall be apportioned and distributed monthly by the Oklahoma Tax Commission in accordance with this section.”

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

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.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the reconciliation of the County Clerk's appropriation ledger to the County Treasurer's general ledger.

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

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

Management Response:

County Clerk: Several attempts were made and documented to balance in the past. The County Clerk's office is currently working with the new Treasurer's administration on a monthly basis to reconcile.

County Treasurer: This error was made by prior administration. Upon taking office in July 2019, this administration immediately began implementing policies and procedures to correct and/or create reconciliation procedures. This administration reconciles with the County Clerk on a monthly basis.

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

Internal Control System Monitoring

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

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

Condition: Upon inquiry and observation of the County's payroll process, it was noted that the Payroll Clerk enrolls new employees, reviews the payroll claims, calculates amounts to be paid to the employees and payroll related agencies, makes payroll changes in the system, and prints payroll warrants.

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.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

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

Management Response:

County Clerk: The payroll process will be changed to have better segregation of duties.

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

Segregation of Duties

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

Additionally, Principal 10 - Segregation of Duties states:

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

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

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

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION 3—Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Finding 2018-015 – Lack of County-Wide Internal Controls Over Major Federal Programs - FEMA (Repeat Finding - 2014-018)

PASS THROUGH GRANTOR: Oklahoma Department of Emergency Management

FEDERAL AGENCY: U.S. Department of Homeland Security

CFDA NO: 97.036

FEDERAL PROGRAM NAME: Disaster Grants – Public Assistance (Presidentially Declared Disasters)

FEDERAL AWARD NUMBER: DR-4222, DR-4256, DR-4315, DR-4324

FEDERAL AWARD YEAR: 2016, 2017, 2018

CONTROL CATEGORY: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, Earmarking; and Period of Performance

QUESTIONED COSTS: \$-0-

Condition: 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 to ensure the County is in compliance with grant requirements.

Effect of Condition: This condition could result in noncompliance with grant requirements.

Recommendation: OSAI recommends that the County implement a system of internal controls to ensure compliance with grant requirements.

Management Response:

Chairman of the Board of County Commissioners: Muskogee County has already started having risk assessment meetings where information and communication regarding the circumstances surrounding grants are discussed.

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

Definition of Internal Controls

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

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

Components, Principles, and Attributes

Control Environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

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

Information and Communication - The quality information management and personnel communicate and use to support the internal control system.

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

Finding 2018-016 – Lack of Internal Controls Over Major Federal Programs – FEMA (Repeat Finding-2014-019)

PASS THROUGH GRANTOR: Oklahoma Department of Emergency Management

FEDERAL AGENCY: U.S. Department of Homeland Security

CFDA NO: 97.036

FEDERAL PROGRAM NAME: Disaster Grants-Public Assistance (Presidentially Declared Disasters)

FEDERAL AWARD NUMBER: DR 4222, DR 4256, DR 4315, and DR 4324

FEDERAL AWARD YEAR: 2016, 2017, 2018

CONTROL CATEGORY: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, Earmarking; and Period of Performance

QUESTIONED COSTS: \$-0-

Condition: During the process of documenting the County's internal controls regarding federal disbursements, we noted that Muskogee County has not established procedures to ensure compliance with the following compliance requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, Earmarking; and Period of Performance.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure federal expenditures are made in accordance with federal compliance requirements.

Effect of Condition: This condition could result in noncompliance to grant requirements and loss of federal funds to the County.

Recommendation: OSAI recommends the County gain an understanding of requirements for these programs and implement internal control procedures to ensure compliance with requirements.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Management Response:

County Commissioner District 1: Muskogee County has attended classes on FEMA guidelines, there is a better understanding of FEMA expectations and requirements.

County Commissioner District 2: We have attended classes and are more familiar with the compliance supplement and Matrix for FEMA and are working to understand them better.

County Commissioner District 3: This is an area we have had a hard time getting a good handle on. Emergency federal funds through FEMA touches a lot of hand and offices by the time they are allotted to being spent. District 3 office is aware that new practices must be instituted and we will provide training and continued communication with Muskogee County officers and staff to get this problem corrected.

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

Definition of Internal Controls

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

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

The non-Federal entity must:

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

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

PASS THROUGH GRANTOR: Oklahoma Department of Emergency Management

FEDERAL AGENCY: U.S. Department of Homeland Security

CFDA NO: 97.036

FEDERAL PROGRAM NAME: Disaster Grants-Public Assistance (Presidentially Declared Disasters)

FEDERAL AWARD NUMBER: DR 4222, DR 4256, DR 4315, and DR 4324

FEDERAL AWARD YEAR: 2016, 2017, 2018

CONTROL CATEGORY: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, Earmarking; and Period of Performance

QUESTIONED COSTS: \$-0-

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

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

- The actual expenditures for Payments to States in Lieu of Real Estate Taxes CFDA 12.112 were \$44,823 and the County reported \$0. The County understated the expenditures for CFDA 12.112 by \$44,823.
- The actual expenditures for Payments in Lieu of Taxes CFDA 15.226 were \$122,658 and the County reported \$60,976. The County understated the expenditures for CFDA 15.226 by \$61,682.
- The actual expenditures for the Disaster Grants-Public Assistance (Presidentially Declared Disasters) CFDA 97.036 were \$636,739 and the County reported \$689,680. The County overstated the expenditures for CFDA 97.036 by \$52,941.

Reported Total Expenditures of Federal Award	\$1,003,037
Add: Payments in Lieu of Taxes (CFDA 15.226)	61,682
Add: Payments to States in Lieu of Real Estate Taxes (CFDA 12.112)	44,823
Less: Disaster Grants-Public Assistance (Presidentially Declared Disasters) CFDA 97.036	<u>(52,941)</u>
Actual Federal Expenditures of Federal Awards	<u>\$1,056,601</u>
Original SEFA understated by	<u>\$ 53,564</u>

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

Effect of Condition: This condition resulted in an inaccurate reporting of the federal expenditures on the SEFA.

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

Management Response:

Chairman of the Board of County Commissioners: Muskogee County has designated a SEFA representative, and we have a better understanding of the SEFA requirements. The County should be better positioned to ensure accurate reporting for federal programs going forward.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

The non-Federal entity must:

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

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

The auditee must:

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

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

Schedule of expenditures of Federal awards.

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

Further, GAO Standards – Section 2 – Objective of an Entity - OV2.23 states in part:

Compliance Objective

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

SECTION 4—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.

No matters were reported.

APPENDIX A

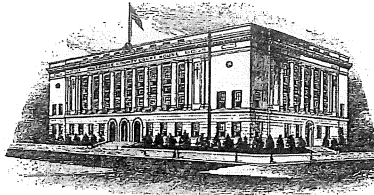
CORRECTIVE ACTION PLAN

(Prepared by County Management)

KEN DOKE
MUSKOGEE DISTRICT 1

STEPHEN WRIGHT
MUSKOGEE DISTRICT 2

KENNY PAYNE
MUSKOGEE DISTRICT 3



DIANNA COPE
COUNTY CLERK



SHEILA SHAMBLIN
SECRETARY

MUSKOGEE BOARD OF COUNTY COMMISSIONERS

P.O. BOX 2307 MUSKOGEE, OK 74402-2307 PHONE (918)682-9601 * FAX (918) 684-1697

Corrective Action Plan in accordance with 2 CFR § 200.511c for the fiscal year ended June 30, 2018

Finding No.	Title (Financial) or CFDA No. & Program Name (Federal)	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	Inadequate County Wide Controls	Muskogee County is now having and documenting regularly scheduled risk assessment meetings.	07/13/2018	Ken Doke, BOCC Chairman
2018-004	Transfer of Funds by Purchase Orders and Noncompliance with State Statutes	We are now aware that it is unacceptable to issue purchase orders internally. There will be an effort going forward to use error forms or transfers to deal with problematic transactions.	07/01/2019	Ken Doke, BOCC Chairman.
2018-005	Control Environment Regarding Financial Reporting	<p>These errors were made prior to current County Treasurer taking office July 1, 2019. The current administration immediately implemented policies and procedures to address these issues and others.</p> <ul style="list-style-type: none"> The \$289,573 bank account created under BOK on the general ledger has been reviewed and corrected on the general ledger. The \$31,398 certificate of deposit error has been corrected. This error had been corrected by the prior administration. All certificate of deposits that had no interest recorded on the general ledger have been corrected and all interest is now recorded for all certificate of deposits on the general ledger. 	<p>06/28/2019</p> <p>09/11/2019</p> <p>06/28/2019</p> <p>09/11/2019 Thru 06/25/2020</p>	Robyn Boswell, County Treasurer
2018-006	Lack of Internal Controls over Presentation of Financial Statement	This error occurred prior to my administration which started July 1, 2019. I have implemented internal controls and have designated individuals for the recording of receipts and disbursements on the financial statement.	01/24/2020	Robyn Boswell, County Treasurer
2018-007	Inadequate Internal Controls Over the Collection, Apportionment, and Cash Balances Processes of the County Treasurer.	These errors were made prior to this administration. Upon taking office in July 2019, we began implementing policies and procedures to correct and/or create segregation of duties and verifications. Each of these errors have been corrected or we are in the process of implementing the changes.	07/01/2019	Robyn Boswell, County Treasurer
2018-008	Inadequate Internal Controls and	This error was made prior to my administration. I took office July 2019, and we immediately began addressing errors, this has been corrected.	02/26/2020	Robyn Boswell,

	Noncompliance Over Apportionment of Motor Vehicle Tax Collections			County Treasurer
2018-011	Reconciliation of Appropriation Ledger to General Ledger	The County Clerk's office is currently working with the new administration in the County Treasurer's office on a monthly basis to reconcile.	07/30/2019	Dianna Cope, County Clerk
2018-013	Inadequate Segregation of Duties Over the Payroll Processes	The payroll process will be changed to have better segregation of duties.	07/01/2019	Dianna Cope, County Clerk
2018-014	97.036 Disaster Grants – Public Assistance (Presidentially Declared Disaster)	Muskogee County has designated a SEFA representative, and we have a better understanding of the SEFA requirements. The County should be better positioned to ensure accurate reporting for federal programs going forward.	Should be corrected no later than 01/01/2021	Ken Doke, BOCC Chairman
2018-015	97.036 Disaster Grants – Public Assistance (Presidentially Declared Disaster)	Muskogee County has already started having risk assessment meetings where information and communication regarding the circumstances surrounding grants are discussed.	08/15/2019	Ken Doke, BOCC Chairman
2018-016	97.036 Disaster Grants – Public Assistance (Presidentially Declared Disaster)	Muskogee County has attended classes on FEMA guidelines, there is a better understanding of FEMA expectations and requirements.	Should be completely corrected no later than 01/01/2021	Ken Doke, BOCC Chairman

APPENDIX B

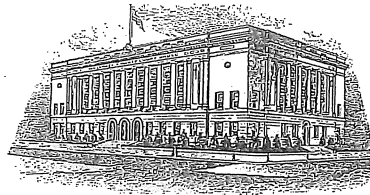
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

(Prepared by County Management)

KEN DOKE
MUSKOGEE DISTRICT 1

STEPHEN WRIGHT
MUSKOGEE DISTRICT 2

KENNY PAYNE
MUSKOGEE DISTRICT 3



DIANNA COPE
COUNTY CLERK



SHEILA SHAMBLIN
SECRETARY

MUSKOGEE BOARD OF COUNTY COMMISSIONERS

P.O. BOX 2307 MUSKOGEE, OK 74402-2307 PHONE (918)682-9601 * FAX (918) 684-1697

**Summary Schedule of Prior Audit Findings
in accordance with 2 CFR § 200.511b
for the fiscal year ended June 30, 2018**

FINANCIAL AUDIT FINDINGS

Finding 2008-022, 2009-021, 2010-023, 2011-001, 2012-001, 2013-001, 2014-001, 2015-001, 2016-001, 2017-001

Inadequate County-Wide Controls

Finding Summary: 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.

Status: No corrective action was taken. We are now having and documenting risk assessment meetings.

Finding 2011-002, 2012-002, 2013-002, 2014-002

Inadequate Internal Controls Over Information Systems Security- County Treasurer

Finding Summary: It was noted that there does not appear to be adequate controls in place to safeguard data from unauthorized modification, loss or disclosure.

Status: Corrective action was taken.

Finding 2011-004, 2012-004, 2013-003, 2014-002, 2015-003, 2016-006, 2017-007

Inadequate Segregation of Duties Over Receipting and Balancing Processes – County Treasurer

Finding Summary: One deputy reconciles bank statements, issues receipts, and prepares deposits. In addition, the duties of issuing receipts, preparing daily reports, preparing monthly reports, posting apportionments to general ledger, reconciling general ledger to the monthly report and reconciling bank statements are all being performed by one employee. Treasurer's office does not prepare or maintain a mail log.

Status: No corrective action was taken. These errors were made under prior administration. Upon taking office in July 2019, we began implementing policies and procedures to correct and/or create segregation of duties and verifications.

Finding 2013-004, 2014-004, 2015-004, 2016-002, 2017-005

Control Environment Regarding Financial Reporting

Finding Summary: As part of our Risk Assessment, we interviewed the County Treasurer and office employees as to their understanding on internal controls. As part of our financial statement audit, we test receipts, disbursements and cash balances. While verifying the financial statement, we noted the following concerns:

- During fiscal year June 30, 2014 the GO Bonds-BOK servicing agreement funds was not monitored by the County Treasurer's office and the balance of \$1,856,990 was not accounted for on the County's financial statement. Adjusting journal entries were proposed by auditor's and the financial statement was corrected.
- While confirming investment it was noted that investments were not being updated in both the investment and general ledger.

Status: No corrective action was taken. This error corrected under the prior administration. When I took office July 2019 the issues were corrected.

Finding 2014-005

Inadequate Internal Controls and Noncompliance Over Operational Transfers

Finding Summary: During the audit period, the County made the following transfers between budgeted and restricted cash funds presented on the Treasurer's general ledger.

- \$70,000 was transferred from the Resale property fund to County General fund to meet requirements of appropriations and not repaid at the end of the fiscal year.
- \$649,493 was transferred from the County Use tax fund to the County General fund, resolution was approved by Board of County Commissioners on October 1, 2012 and was not made by the County Treasurer until August 29, 2013, approximately eleven (11) months after the resolution was approved.

Status: Corrective action was taken.

Finding 2011-017, 2012-012, 2013-007, 2014-008, 2015-007

Inadequate Internal Controls Over Signature Stamps- County Commissioners

Finding Summary: While gaining an understanding of the purchasing process the following was noted:

- The County Treasurer's office had physical control of District 1, and District 3 County Commissioner's stamps during the fiscal year.
- All three (3) County Commissioners' signature stamps are locked in a safe in the Board of County Commissioners meeting room, but all three (3) have access to the safe.

Status: Corrective action was taken.

Finding 2011-016, 2012-011, 2013-008, 2014-009, 2015-008, 2016-015, 2017-011

Reconciliation of Appropriation Leger to General Ledger

Finding Summary: The County Clerk does not reconcile the appropriation ledger to the County Treasurer's General Ledger.

Status: No corrective action was taken. The County Clerk's office is currently working with the new administration in the County Treasurer's office on a monthly basis to reconcile.

Finding 2007-003, 2008-003, 2009-003, 2010-003, 2011-015, 2012-010, 2013-011, 2014-011, 2015-011

Inadequate Internal controls Over Bank Reconciliations

Finding Summary: Exceptions were noted while confirming reconciling items at June 30.

Status: Corrective action was taken.

Finding 2013-013, 2014-012, 2015-013, 2016-005, 2017-006

Lack of Internal Controls Over Presentation of Financial Statement

Finding Summary: The County has not designed and implemented internal controls for the presentation of the County financial statement.

Status: No corrective action was taken. This error occurred under the prior administration. When I took office July 2019, I implemented internal controls and have designated individuals for the recording of receipts and disbursements on the financial statement.

Finding 2014-022

Inadequate Internal Controls and Noncompliance Over Payment of Purchase Orders

Finding Summary: Two purchase orders and warrants were issued to the Muskogee City County Port Authority, warrants were signed by the Chairman of the Board of County Commissioners and paid at the bank, prior to the purchase orders being approved by the Board of County Commissioners.

Status: Corrective action was taken.

FEDERAL AUDIT FINDINGS

Finding 2014-018

Inadequate County-Wide Controls Over Major Federal Programs – Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii

Pass-Through Grantor: Oklahoma Department of Commerce

Federal Agency: U. S. Department of Housing and Urban Development

CFDA NO: 14.228

Federal Program Name: Community Development Block Grant/State's program and Non-Entitlement Grants in Hawaii

Federal Award Number: 15449 CDBG 12

Federal Award Year: 2014

Control Category: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Davis Bacon Act; Period of Availability of Federal Funds; Procurement and Suspension and Debarment; Reporting; and Special Tests and Provisions

Questioned Costs-\$0-

Finding Summary: County-wide internal controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

Status: The Muskogee County Board of County Commissioners do not feel this finding warrants further action because two years have passed since the audit report was submitted to the Federal Clearinghouse, the Federal agency or pass-through entity is not currently following up with the County regarding this finding, and a management decision has not been issued.

Finding 2014-019

Inadequate County-Wide Controls Over Major Federal Programs – Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii

Pass-Through Grantor: Oklahoma Department of Commerce

Federal Agency: U. S. Department of Housing and Urban Development

CFDA NO: 14.228

Federal Program Name: Community Development Block Grant/State's program and Non-Entitlement Grants in Hawaii

Federal Award Number: 15449 CDBG 12

Federal Award Year: 2014

Control Category: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Davis Bacon Act; Period of Availability of Federal Funds; Procurement and Suspension and Debarment; Reporting; and Special Tests and Provisions

Questioned Costs-\$0-

Finding Summary: During the process of documenting the County's internal controls regarding federal disbursements, we noted that the Muskogee County has not established procedures to ensure compliance with the following compliance requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Davis Bacon Act; Period of Availability of Federal Funds; Procurement and Suspension and Debarment; Reporting; and Special Tests and Provisions

Status: The Muskogee County Board of County Commissioners do not feel this finding warrants further action because two years have passed since the audit report was submitted to the Federal Clearinghouse, the Federal agency or pass-through entity is not currently following up with the County regarding this finding, and a management decision has not been issued.

Finding 2014-020

Lack of Internal Controls and Noncompliance with Compliance Requirement I-Procurement and Suspension and Debarment

Pass-Through Grantor: Oklahoma Department of Commerce

Federal Agency: U. S. Department of Housing and Urban Development

CFDA NO: 14.228

Federal Program Name: Community Development Block Grant/State's program and Non-Entitlement Grants in Hawaii

Federal Award Number: 15449 CDBG 12

Federal Award Year: 2014

Control Category: Procurement and Suspension and Debarment

Questioned Costs-\$0-

Finding Summary: While performing testwork on the federal expenditures for major Federal program, the following as noted:

- OSAI was unable to obtain sealed and time stamped envelopes, consequently, unable to verify that the project was properly bid.
- Two warrants were cashed prior to purchase orders being approved by the Board of County Commissioners.

Status: The Muskogee County Board of County Commissioners do not feel this finding warrants further action because two years have passed since the audit report was submitted to the Federal Clearinghouse, the Federal agency or pass-through entity is not currently following up with the County regarding this finding, and a management decision has not been issued.



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