

County Audit

Muskogee County, Oklahoma

For The Fiscal Year Ended
June 30, 2006



Office of the Oklahoma State Auditor and Inspector
Jeff A. McMahan, CFE

**MUSKOGEE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

July 31, 2007

TO THE CITIZENS OF
MUSKOGEE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Muskogee County, Oklahoma, for the fiscal year ended June 30, 2006. A report of this type is critical in nature; however, we do not intend to imply that our audit failed to disclose commendable features in the present accounting and operating procedures of the County.

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

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahon". The signature is written in a cursive style with a large, looping initial "J".

JEFF A. McMAHAN
State Auditor and Inspector

**MUSKOGEE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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MUSKOGEE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

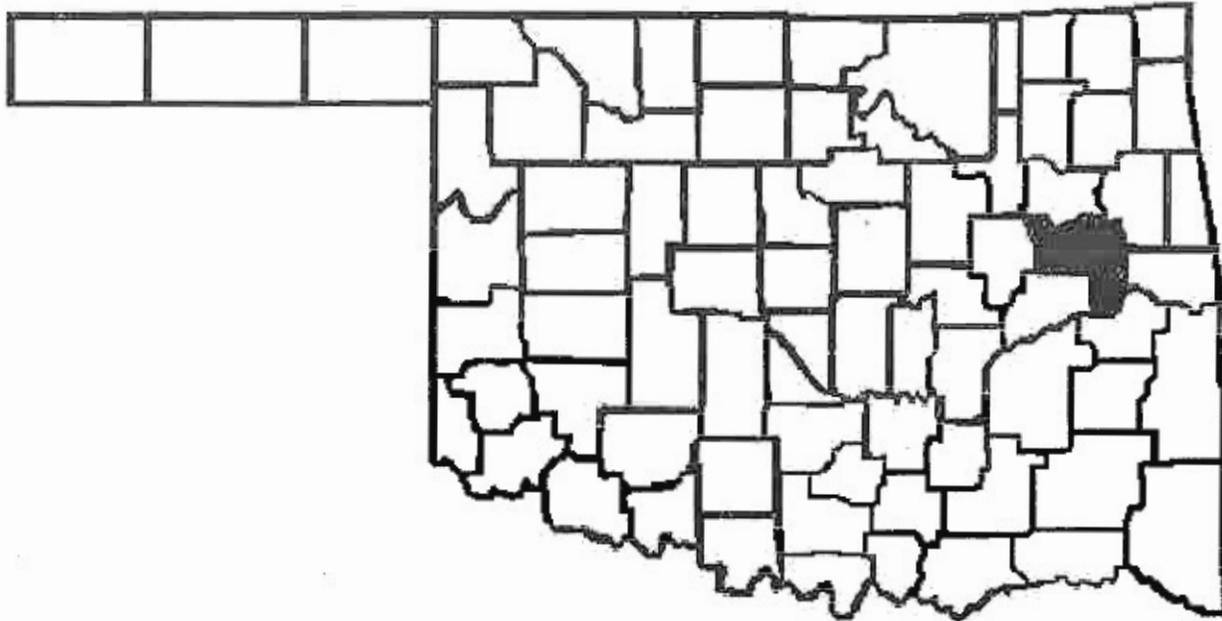
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**REPORT TO THE CITIZENS
OF
MUSKOGEE COUNTY, OKLAHOMA**



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

Muskogee County's economy is based primarily on agriculture, but oil, industry, and recreation have also been part of the building of this county's economies. The city of Muskogee itself is within 30 minutes of five major lakes.

County Seat – Muskogee

Area – 838.99 Square Miles

County Population – 70,626
(2004 est.)

Farms – 1,740

Land in Farms – 351,895 Acres

Primary Source: Oklahoma Almanac 2005-2006

See independent auditor's report.

**MUSKOGEE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

COUNTY ASSESSOR
Dan Ashwood
(D) Webbers Falls

The County Assessor has the responsibility to appraise and assess the real and personal property within the county for the purpose of ad valorem taxation. Also, the County Assessor is required to compute the ad valorem taxes due on all taxable property. The County Assessor appraises all the taxable real and personal property according to its fair cash value for which the property is actually being used as of January 1 of the taxable year at the percentages provided for in Article 10, § 8 of the Oklahoma Constitution.

The County Assessor is required to build and maintain permanent records of the taxable real property and tax exempt real property within the county. Information entered on each record includes the property's legal description, owner's name and address, and the homestead exemption status of the owner.

COUNTY CLERK
Karen Anderson
(D) Porum

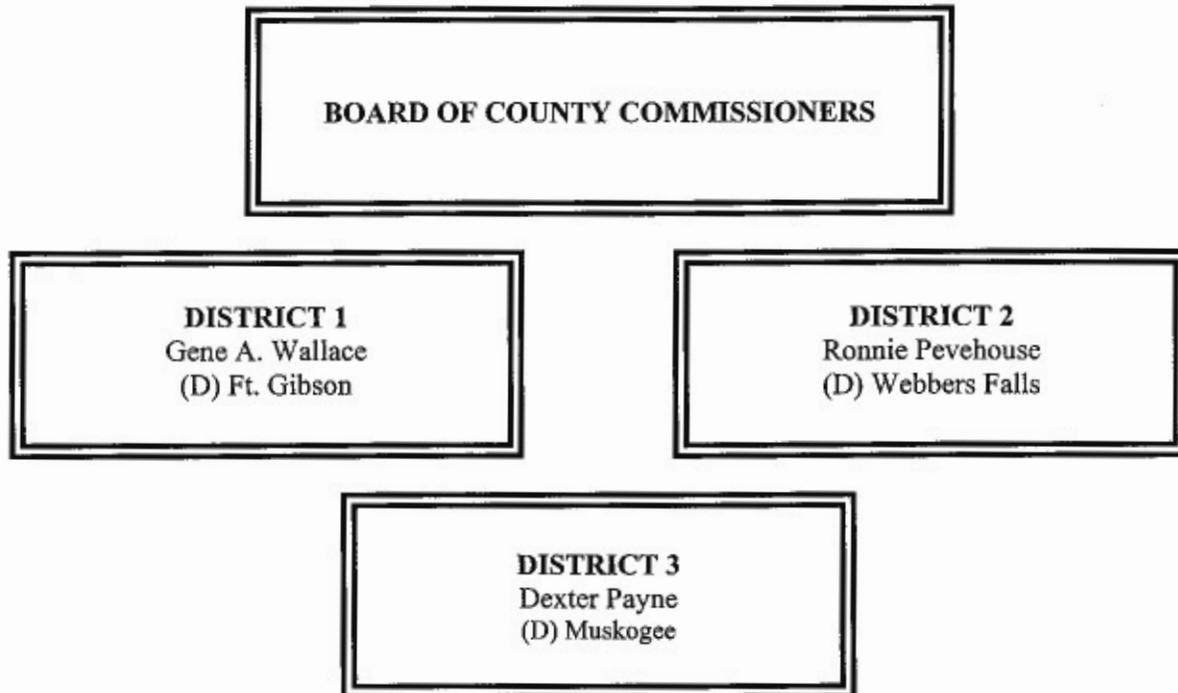
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

The County Clerk reviews all the claims for payment of goods and services purchased or contracted by the county, and prepares the proper warrants for payment of those goods and services and the county payroll. The County Clerk, or his or her designated deputy, serves as the purchasing agent for the county. This system is a means to ensure the public that tax dollars are being spent appropriately.

Various records within the different county offices are classified as "open records." As such, they can be reviewed and mechanically copied by the public.

See independent auditor's report.

**MUSKOGEE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**



The Board of County Commissioners is the chief administrative body for the county. County Commissioners are also responsible for maintaining and constructing the county roads and bridges.

The Commissioners must act as a Board when entering into contracts or other agreements affecting the county's welfare. Thus, actions taken by the Board are voted on and approved by a majority of the Commissioners. The Board of County Commissioners' business meetings are open to the public.

As the county's chief administrative body, the three County Commissioners must make major financial decisions and transactions. The Board has the official duty to ensure the fiscal responsibility of the other county officers who handle county funds. The review and approval procedures empowered to the Board of County Commissioners are a means to provide the public with a fiscally efficient system of county government.

See independent auditor's report.

**MUSKOGEE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

COUNTY SHERIFF
Charles Pearson
(D) Muskogee

The County Sheriff is responsible for preserving the peace and protecting life and property within the county's jurisdiction. As the county's chief law enforcement officer, the Sheriff has the power and authority to suppress all unlawful disturbances, to apprehend and secure persons charged with felony or breach of peace, and to operate the county jail.

The County Sheriff has the responsibility of serving warrants and processing papers ordered by the District Court.

COUNTY TREASURER
Glen Scott
(D) Muskogee

All collections by county government from ad valorem taxes and other sources are deposited with the County Treasurer. The County Treasurer collects ad valorem taxes for the county and its political subdivisions. The County Treasurer is authorized to issue delinquent personal property tax warrants and to impose tax liens on real property for delinquent taxes.

To account for county collections and disbursements, the County Treasurer is required to maintain an accurate record of all the monies received and disbursed. The State Auditor and Inspector's Office prescribes all the forms used by the County Treasurer, and at least twice a year inspects the County Treasurer's accounts.

See independent auditor's report.

**MUSKOGEE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

COURT CLERK
Paula Sexton
(D) Muskogee

The Court Clerk has the primary responsibility to record, file, and maintain as permanent records the proceedings of the District Court.

Court proceedings are recorded in the appropriate journal or record docket. All the court proceedings are public information except those related to juvenile, guardianship, adoption, and mental health cases.

The Court Clerk issues marriage licenses, passports, notary certificates, beer and pool hall licenses, and private process server licenses.

Monies from the court fund are identified for distribution by the Court Clerk to the appropriate units of county and state government. Court Clerks use forms and follow procedures prescribed by the Court Administrator's Office, the Oklahoma Supreme Court, and the State Auditor and Inspector.

DISTRICT ATTORNEY
John David Lutton
(D) Muskogee

As the chief attorney for county government, the District Attorney acts as the legal advisor to the county officers on matters related to their duties. The District Attorney represents the county in civil litigation. County officials may call upon the District Attorney to clarify a law or request an official interpretation from the Attorney General.

See independent auditor's report.

**MUSKOGEE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

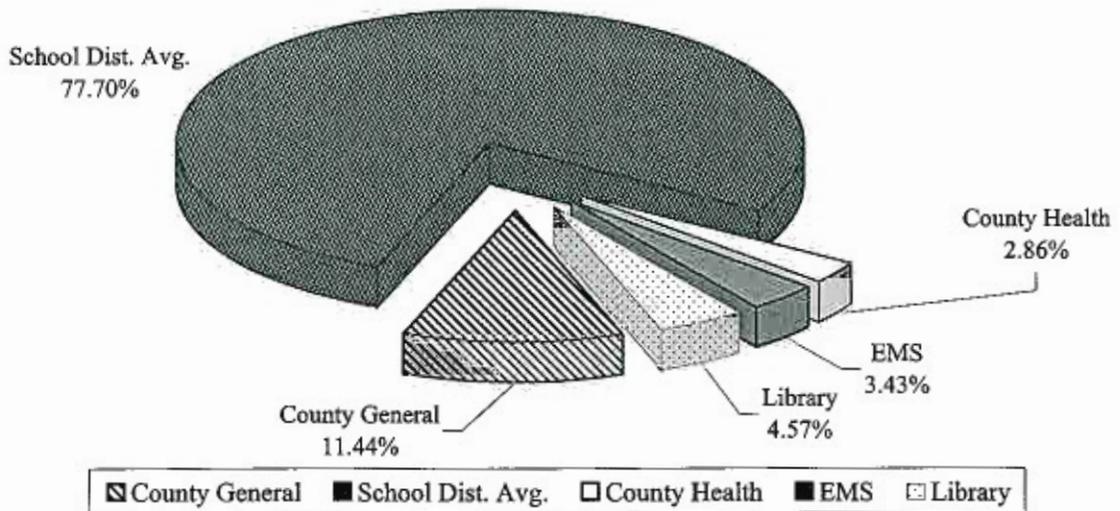
| |
|---|
| <p>ELECTION BOARD SECRETARY Bill Settle (D) Muskogee</p> |
|---|

The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within the county.

To finance the operation of the County Election Board, the County Excise Board must appropriate sufficient funds annually. The state and counties split the election costs, but counties must pay for any county elections not held concurrently with state elections.

**MUSKOGEE COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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



| County-Wide Millages | | School District Millages | | | | | | | |
|----------------------|-------|--------------------------|-------|-------|------|-------------|--------|-------|-------|
| | | | Gen. | Bldg. | Skg. | Career Tech | Common | Total | |
| County General | 10.13 | Haskell | 2 | 35.98 | 5.14 | 21.16 | 10.13 | 4.05 | 76.46 |
| County Health | 2.53 | Fort Gibson | 3 | 35.16 | 5.02 | 12.64 | 10.13 | 4.05 | 67.00 |
| EMS | 3.04 | Boynston | 4 | 36.31 | 5.19 | 12.98 | 10.13 | 4.05 | 68.66 |
| Library | 4.05 | Webbers Falls | 6 | 36.09 | 5.16 | 25.40 | 10.13 | 4.05 | 80.83 |
| | | Oktaha | 8 | 36.68 | 5.24 | 25.54 | 10.13 | 4.05 | 81.64 |
| | | Wainwright | 9 | 37.00 | 5.29 | | 10.13 | 4.05 | 56.47 |
| | | Muskogee | 20 | 35.40 | 5.06 | 17.30 | 10.13 | 4.05 | 71.94 |
| | | Hilldale | 29 | 35.73 | 5.10 | 11.19 | 10.13 | 4.05 | 66.20 |
| | | Braggs | 46 | 35.57 | 5.08 | | 10.13 | 4.05 | 54.83 |
| | | Warner | 74 | 35.93 | 5.13 | 11.98 | 10.13 | 4.05 | 67.22 |
| | | Porum | 88 | 36.16 | 5.17 | 28.28 | 10.13 | 4.05 | 83.79 |
| | | Sequoyah | J-6B | 35.29 | 5.04 | | 10.13 | 4.05 | 54.51 |
| | | McIntosh | J-19B | 36.66 | 5.24 | 10.90 | 10.13 | 4.05 | 66.98 |
| | | McIntosh | J-27 | 35.84 | 5.12 | 12.20 | 10.13 | 4.05 | 67.34 |

See independent auditor's report.

**MUSKOGEE COUNTY, OKLAHOMA
COMPUTATION OF LEGAL DEBT MARGIN
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

| | | |
|---|------------|-----------------------|
| Total net assessed value as of January 1, 2005 | | <u>\$ 387,370,883</u> |
| Debt limit - 5% of total assessed value | | 19,368,544 |
| Total bonds outstanding | 14,978,000 | |
| Total judgments outstanding | - | |
| Less cash in sinking fund | <u>299</u> | <u>14,977,701</u> |
| Legal debt margin | | <u>\$ 4,390,843</u> |

See independent auditor's report.

**MUSKOGEE COUNTY, OKLAHOMA
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
VALUE AND NET BONDED DEBT PER CAPITA
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

| | 2006 |
|---|----------------|
| Estimated population | 70,626 |
| Net assessed value as of January 1, 2005 | \$ 387,370,883 |
| Gross bonded debt | 14,978,000 |
| Less available sinking fund cash balance | 299 |
| Net bonded debt | \$ 14,977,701 |
| Ratio of net bonded debt to assessed value | 3.87% |
| Net bonded debt per capita | \$ 212 |

See independent auditor's report.

**MUSKOGEE COUNTY, OKLAHOMA
ASSESSED VALUE OF PROPERTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

| <u>Valuation Date</u> | <u>Personal</u> | <u>Public Service</u> | <u>Real Estate</u> | <u>Homestead Exemption</u> | <u>Net Value</u> | <u>Estimated Fair Market Value</u> |
|---------------------------|-----------------|---------------------------|------------------------|--------------------------------|------------------|--|
| 1/1/2005 | \$73,886,025 | \$122,052,332 | \$205,680,560 | \$14,248,034 | \$387,370,883 | \$3,228,090,692 |

See independent auditor's report.

FINANCIAL SECTION



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

Independent Auditor's Report

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Muskogee County, Oklahoma, as of and for the year ended June 30, 2006, listed in the table of contents as the basic financial statement. This financial statement is the responsibility of Muskogee County's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. Oklahoma Statutes, in addition to audit responsibilities, assign other responsibilities to the State Auditor and Inspector's Office. Those responsibilities include providing various information technology (IT) support for county government.

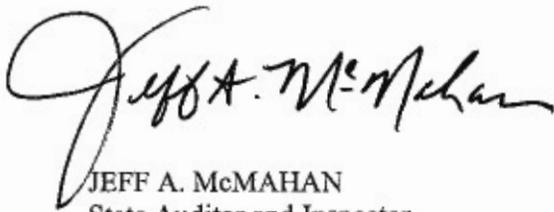
As described in Note 1, this financial statement was prepared using accounting practices prescribed or permitted by Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Muskogee County as of June 30, 2006, or changes in its financial position for the year then ended.

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 of Muskogee County, for the year ended June 30, 2006, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2007, on our consideration of Muskogee County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the combined total of all funds within the basic financial statement taken as a whole. The combining information is presented for purposes of additional analysis rather than to present the receipts, disbursements, and cash balances of the individual funds. Also, the other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the basic financial statement. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statement. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statement taken as a whole. The information listed in the table of contents under Introductory Section has not been audited by us, and accordingly, we express no opinion on it.



JEFF A. McMAHAN
State Auditor and Inspector

July 12, 2007

Basic Financial Statement

**MUSKOGEE COUNTY, OKLAHOMA
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | Beginning Cash Balances July 1, 2005 | Receipts Apportioned | Disbursements | Ending Cash Balances June 30, 2006 |
|--|--|-------------------------|----------------------|--|
| Combining Information: | | | | |
| County General Fund | \$ 1,932,464 | \$ 5,276,457 | \$ 5,146,355 | \$ 2,062,566 |
| Highway Cash | 3,183,797 | 4,320,351 | 4,564,749 | 2,939,399 |
| County Health Current | 873,434 | 1,114,076 | 1,280,944 | 706,566 |
| Resale Property | 437,021 | 365,703 | 220,535 | 582,189 |
| County Sinking Fund | 49,561 | 9,636 | 58,898 | 299 |
| Sheriff Revolving Reward | 28,137 | 6,570 | 33,944 | 763 |
| MCCD Grant 2 | 71 | | | 71 |
| County Clerk Lien Cash Fund | 46,505 | 15,881 | 14,339 | 48,047 |
| Sheriff Service Cash Fund | 71,841 | 490,810 | 539,627 | 23,024 |
| Treasurer Mortgage Cert. Fee | 57,701 | 18,755 | 30,091 | 46,365 |
| Treasurer City/County Detention Facility | 153,330 | 1,396,217 | 1,406,662 | 142,885 |
| Sheriff Patrol Cash Fund | 6,444 | 22,584 | 28,061 | 967 |
| Assessor Visual Inspection and County | 52,014 | 9,723 | 24,843 | 36,894 |
| Sheriff Commissary Fund | 3,993 | 47,049 | 47,927 | 3,115 |
| Records Mgmt. Preservation | 109,550 | 100,131 | 111,173 | 98,508 |
| Sheriff Drug Forfeiture | 2,559 | | 2,534 | 25 |
| Sheriff Training | 139 | | | 139 |
| LLEG-1 | 5,000 | | 4,281 | 719 |
| Project For Safe Neighborhoods Grant | 5 | 18,432 | 18,408 | 29 |
| Homeland Security Grants 1 and 2 | 115 | | | 115 |
| Cops-1 | 22,224 | 90,000 | 76,694 | 35,530 |
| Jag | | 62,000 | 61,941 | 59 |
| CDBG | | 470,201 | 409,196 | 61,005 |
| Combined Total--All County Funds | \$ 7,035,905 | \$ 13,834,576 | \$ 14,081,202 | \$ 6,789,279 |

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, 2006**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Counties were created by the Constitution of Oklahoma. One county officer is appointed; however, most county officers are locally elected by their constituents. All county powers are delegated by the state.

The accompanying basic financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds of Muskogee County, Oklahoma. The funds presented as line items are not a part of the basic financial statement, but have been included as supplementary information within the basic financial statement. These separate funds are established by statute, and their operations are under the control of the County officials. 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. The other funds presented account for financial resources whose use is restricted for specified purposes.

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 funds included as supplementary information within the financial statement:

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

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

County Health Current – revenues are 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 – revenues are from interest and penalties on ad valorem tax collections. Disbursements are to offset the expense of collecting delinquent ad valorem taxes.

County Sinking Fund – revenues are from interest earnings and Federal Flood Control funds. Disbursements are for the payment of principle and interest on judgments against the County.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Sheriff Revolving Reward – revenues are from trash fines and restitution. Disbursements are for the maintenance of the trash truck and land fill fees.

MCCD Grant 2 – revenues are from a federal grant. Disbursements are for a school resource officer.

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

Sheriff Service Cash Fund – revenues are from fees charged for serving summons and notices. Disbursements are for any lawful expense of the Sheriff's office.

Treasurer Mortgage Certification Fee – revenues are from a fee for certifying mortgages. Disbursements are for any lawful expense of the Treasurer's office.

Treasurer City/County Detention Facility – revenues are from charges for boarding prisoners. Disbursements are for the maintenance and operation of the jail.

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

Assessor Visual Inspection and County – revenues are from any and all 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 monies collected (from prisoners) and used as a checking account for the prisoners to make purchases during their incarceration.

Records Management Preservation—revenues are from a fee charged by the County Clerk for recording instruments. Disbursements are for the maintenance and preservation of public records.

Sheriff Drug Forfeiture – revenues are 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 – revenues are from funds received for astray animals. Disbursements are for Sheriff training.

LLEG-1 – revenue is from a U.S. Department of Justice Grant. Disbursements are to hire more law enforcements deputies.

Project for Safe Neighborhoods Grant – revenues are from a federal grant. Disbursements are to support existing programs in law enforcement targeted at gun violence and drug abuse.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

Cops-1 – revenue is from a federal grant. Disbursements are for additional deputies.

JAG – revenue is from a federal grant. Disbursements are for Sheriff patrol cars

CDBG – revenue is from a federal grant. Disbursements are to the Muskogee Port Authority for community development projects.

C. Basis of Accounting

The basic 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 cash basis financial presentation is not a comprehensive measure of economic condition or changes therein.

D. Budget

Under current Oklahoma Statutes, the general fund and the 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 by fund, 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.

For the highway funds and other funds, which are not required to adopt a formal budget, appropriations are made on a monthly basis, according to the funds then available.

E. Cash

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). However, at June 30, 2006, the County was uncollateralized by \$801,867.81

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

F. Investments

The County Treasurer has been authorized by the County's governing board to make investments. By statute (62 O.S. § 348.1 and § 348.3), the following types of investments are allowed:

- U.S. Government obligations
- Certificates of deposit
- Savings accounts
- G.O. bonds issued by counties, municipalities or school districts
- Money judgments against counties, municipalities or school districts
- Bonds and revenue notes issued by a public trust when the beneficiary of the trust is a county, municipality or school district
- Negotiable certificates of deposit
- Prime bankers acceptance which are eligible for purchase by the Federal Reserve System
- Prime commercial paper with a maturity of 180 days or less
- Repurchase agreements
- Money market funds regulated by the Securities and Exchange Commission and which investments consist of the above-mentioned types of investments

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.

G. Compensated Absences

Vacation benefits are earned by the employee during the year and may not be accumulated. Employees with service years up to 10 years earn 10 days per year. Employees with service years exceeding 10 years earn 15 days per year. Vacation leave is accrued monthly.

Sick leave benefits are accrued at the rate of 10 hours per month and employees may accumulate up to 30 days. Sick leave is not paid upon termination.

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."

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The assessed property value as of January 1, 2005, was approximately \$387,370,883.

Per Article 10, § 8A, with the repeal of personal property tax, the millages with the adjustment factor are 10.13 mills (the legal maximum) for general fund operations, 2.53 mills for county health department, 3.04 mills for emergency medical service, and 4.05 mills for county library. In addition, the County collects the ad valorem taxes assessed by cities and towns and school districts and remits the ad valorem taxes collected to the appropriate taxing units.

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. Unpaid real property taxes become a lien upon said property on October 1 of each year.

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

Current year tax collections for the year ended June 30, 2006, were approximately 94.83 percent of the tax levy.

3. Fuel Tax

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the county highway fund.

4. Risk Management

The County is exposed to the various risks of loss shown in the following table:

| Types of Loss | Method of Management | Risk of Loss Retained |
|--|---|--|
| General Liability <ul style="list-style-type: none"> • Torts • Errors and Omissions • Law Enforcement Officers Liability • Vehicle | The County participates in a public entity risk pool: Association of County Commissioners of Oklahoma-Self-Insurance Group. (See ACCO-SIG.) | If claims exceed the authorized deductibles, the County could have to pay its share of any pool deficit. A judgment could be assessed for claims in excess of the pool's limits. |
| Physical Plant <ul style="list-style-type: none"> • Theft • Damage to Assets • Natural Disasters | | |

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| Types of Loss | Method of Management | Risk of Loss Retained |
|--|--|--|
| Workers' Compensation <ul style="list-style-type: none"> • Employees' Injuries | The County carries commercial insurance. | A judgment could be assessed for claims in excess of coverage. |
| Employee <ul style="list-style-type: none"> • Medical • Disability • Dental • Life | The County participates in the Oklahoma Public Employees Health and Welfare Plan. (See OPEH&WP.) | If claims exceed pool assets, the members would have surcharges assessed to pay the excess claims. |

ACCO-SIG - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating county chooses a \$10,000, \$25,000, or a \$50,000 deductible amount. The County has chosen a \$50,000 deductible for each insured event as stated in the County's "Certificate of Participation." The risk pool will pay legitimate claims in excess of the deductible amount for replacement value up to \$100,000 for property, and up to \$500,000 for general liability. The pool has acquired commercial reinsurance in the amount of \$1,000,000 to cover claims that exceed the pool's risk retention limits. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

Commercial Insurance - The County obtains commercial insurance coverage to pay legitimate workers' compensation claims. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

OPEH&WP - The County has entered into an interlocal agreement with other governmental entities to participate in a pooled self-insurance fund to provide insurance coverage. The pool provides for surcharges to be assessed for claims in excess of pool assets to offset pool deficits. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

5. Long-term Obligations

Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/or the equipment vendors or their assignees pursuant to the provisions of 69 O.S. § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest free. However, starting in

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

January 1997, ODOT began charging a one-time fee of 3% on all pieces of machinery subsequently acquired.

Judgments

The County had judgments, which were retired by excess funds in the sinking fund.

During the year ended June 30, 2006, the County paid \$58,600 principal and \$298 interest on these judgments. The County has no outstanding balances due on judgments at June 30, 2006.

6. Pension Plan

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

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. County employees are required to contribute between 3.5% and 8.5% of earned compensation. The County contributes between 6.5% and 11.5% of earned compensation. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributes 11.5% of earned compensation for elected officials. The County's contributions to the plan for the years ending June 30, 2006, 2005, and 2004 were \$609,325, \$519,962, and \$419,186, respectively, equal to the required contributions for each year.

7. 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.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

8. 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.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in management's opinion, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

9. 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.

General obligation bonds currently outstanding are as follows:

| Purpose | Interest Rates | Amount |
|--|----------------|----------------------|
| County Limited Tax Bonds of 1991 | 5.50-5.75 | \$ 50,000 |
| County Limited Tax Bonds of 1995, Series A | 5.50-5.75 | 125,000 |
| County Limited Tax Bonds of 1996 | 5.50-5.75 | 300,000 |
| County Limited Bonds of 1997, Series A | 5.50-5.75 | 140,000 |
| County Limited Tax Bonds of 1997, Series B | 5.50-5.75 | 1,890,000 |
| County Limited Tax Bonds of 1998, Series A | 5.50-5.75 | 175,000 |
| County Limited Tax Bonds of 1998, Series B | 5.50-5.75 | 385,000 |
| County Limited Tax Bonds of 1999, Series A | 5.50-5.75 | 1,020,000 |
| County Limited Tax Bonds of 1999, Series B | 5.50-5.75 | 185,000 |
| County Limited Tax Bonds of 1999, Series C | 5.50-5.75 | 225,000 |
| County Limited Tax Bonds of 1999, Series D | 5.50-5.75 | 350,000 |
| County Limited Tax Bonds of 1999, Series E | 5.50-5.75 | 720,000 |
| County Limited Tax Bonds of 2000, Series A | 5.50-5.75 | 360,000 |
| County Limited Tax Bonds of 2000, Series B | 5.50-5.75 | 1,580,000 |
| County Limited Tax Bonds of 2000, Series C | 5.50-5.75 | 408,000 |
| County Limited Tax Bonds of 2001, Series A | 5.50-5.75 | 600,000 |
| County Limited Tax Bonds of 2004, Series A | 5.50-5.91 | 3,315,000 |
| County Limited Tax Bonds of 2004, Series B | 5.50-5.92 | 1,765,000 |
| County Limited Tax Bonds of 2004, Series C | 5.50-5.93 | 400,000 |
| County Limited Tax Bonds of 2005, Series A | 5.50-6.00 | 985,000 |
| Total | | \$ 14,978,000 |

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Payment of the principal and interest is made by the recipient of the proceeds (private manufacturing companies). To date, the County has not had to levy for any bond or interest payment. Bond proceeds and payments are administered by the Muskogee County Industrial Authority.

10. Restatement of Beginning Balance as Reported

Due to the reclassification of funds for fiscal year ending June 30, 2005, the ending balance as reported is different than the June 30, 2006 beginning balance. The difference is due to three funds reported as county that should have been trust and agency, resulting in a reduction of \$123,895. One fund was reported as trust and agency that should have been county funds resulting in an increase of \$139.

| | |
|---------------------------------------|---------------------|
| Prior Year Ending as Reported | \$ 7,159,661 |
| Funds Moved to Trust and Agency | (123,895) |
| Funds Moved to County Funds | 139 |
| Prior Year Ending Balance as Restated | <u>\$ 7,035,905</u> |

11. Subsequent Event Claim Against the County

Subsequent to June 30, 2006, the County was presented with a claim in excess of \$1,000,000. The claim is against the Sheriff's Office for malicious prosecution related to a police request for charges without probable cause and without a proper investigation, resulting in the loss of reputation and livelihood. This event occurred prior to the end of the fiscal year ended June 30, 2006. The County has taken no action on the claim as of the end of fieldwork July 12, 2007. The County has not fully investigated the matter at this time; therefore the County cannot determine the likelihood of the outcome of a possible lawsuit.

OTHER SUPPLEMENTARY INFORMATION

MUSKOGEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| | General Fund | | | |
|--|--------------------|------------------|------------------|----------------|
| | Original Budget | Final Budget | Actual | Variance |
| Beginning Cash Balances | \$ 1,932,464 | \$ 1,932,464 | \$ 1,932,464 | \$ - |
| Less: Prior Year Outstanding Warrants | 278,631 | 278,631 | 278,631 | |
| Less: Prior Year Encumbrances | (13,680) | (13,680) | (12,981) | 699 |
| Beginning Cash Balances, Budgetary Basis | <u>1,640,153</u> | <u>1,640,153</u> | <u>1,640,852</u> | <u>699</u> |
| Receipts: | | | | |
| Ad Valorem Taxes | 3,567,334 | 3,567,334 | 3,796,234 | 228,900 |
| Charges for Services | 284,339 | 284,339 | 350,390 | 66,051 |
| Intergovernmental Revenues | 570,941 | 660,739 | 728,979 | 68,240 |
| Miscellaneous Revenues | 180,555 | 180,555 | 400,854 | 220,299 |
| Total Receipts, Budgetary Basis | <u>4,603,169</u> | <u>4,692,967</u> | <u>5,276,457</u> | <u>583,490</u> |
| Expenditures: | | | | |
| District Attorney | 47,610 | 47,610 | 44,555 | 3,055 |
| Total District Attorney | <u>47,610</u> | <u>47,610</u> | <u>44,555</u> | <u>3,055</u> |
| County Sheriff | 435,967 | 453,407 | 452,858 | 549 |
| Total County Sheriff | <u>435,967</u> | <u>453,407</u> | <u>452,858</u> | <u>549</u> |
| County Treasurer | 209,220 | 209,220 | 208,402 | 818 |
| Total County Treasurer | <u>209,220</u> | <u>209,220</u> | <u>208,402</u> | <u>818</u> |
| County Commissioners | 180,300 | 180,574 | 167,536 | 13,038 |
| Total County Commissioners | <u>180,300</u> | <u>180,574</u> | <u>167,536</u> | <u>13,038</u> |
| OSU Extension | 80,000 | 80,000 | 79,981 | 19 |
| Total OSU Extension | <u>80,000</u> | <u>80,000</u> | <u>79,981</u> | <u>19</u> |
| County Clerk | 262,619 | 252,462 | 252,382 | 80 |
| Total County Clerk | <u>262,619</u> | <u>252,462</u> | <u>252,382</u> | <u>80</u> |
| Court Clerk | 189,792 | 189,831 | 189,806 | 25 |
| Total Court Clerk | <u>189,792</u> | <u>189,831</u> | <u>189,806</u> | <u>25</u> |
| County Assessor | 209,750 | 198,250 | 195,990 | 2,260 |
| Capital Outlay | 500 | 500 | 130 | 370 |
| Total County Assessor | <u>210,250</u> | <u>198,750</u> | <u>196,120</u> | <u>2,630</u> |

continued on next page

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

MUSKOGEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

continued from previous page

| | Original Budget | Final Budget | Actual | Variance |
|------------------------------------|--------------------|------------------|------------------|---------------|
| Revaluation of Real Property | 293,724 | 234,169 | 203,454 | 30,715 |
| Capital Outlay | 7,000 | 7,000 | 6,990 | 10 |
| Total Revaluation of Real Property | <u>300,724</u> | <u>241,169</u> | <u>210,444</u> | <u>30,725</u> |
| District Court | 21,600 | 21,600 | 21,600 | |
| Total District Court | <u>21,600</u> | <u>21,600</u> | <u>21,600</u> | - |
| General Government | 2,257,718 | 2,382,677 | 2,368,339 | 14,338 |
| Total General Government | <u>2,257,718</u> | <u>2,382,677</u> | <u>2,368,339</u> | <u>14,338</u> |
| Excise-Equalization Board | 10,000 | 9,792 | 9,419 | 373 |
| Total Excise-Equalization Board | <u>10,000</u> | <u>9,792</u> | <u>9,419</u> | <u>373</u> |
| County Election Board | 176,440 | 177,389 | 177,248 | 141 |
| Capital Outlay | 1,560 | 4,934 | 4,913 | 21 |
| Total County Election Board | <u>178,000</u> | <u>182,323</u> | <u>182,161</u> | <u>162</u> |
| County Purchasing Agent | 85,558 | 100,396 | 100,312 | 84 |
| Total County Purchasing Agent | <u>85,558</u> | <u>100,396</u> | <u>100,312</u> | <u>84</u> |
| County Charity | 200 | 200 | | 200 |
| Total Charity | <u>200</u> | <u>200</u> | - | <u>200</u> |
| Fire Fighter Services | 35,000 | 38,321 | 38,321 | |
| Total Fire Fighter Services | <u>35,000</u> | <u>38,321</u> | <u>38,321</u> | - |
| County Engineer | 7,800 | 6,595 | 3,170 | 3,425 |
| Total County Engineer | <u>7,800</u> | <u>6,595</u> | <u>3,170</u> | <u>3,425</u> |
| Civil Defense | 60,816 | 76,167 | 75,553 | 614 |
| Capital Outlay | 7,289 | 1,630 | 1,630 | |
| Total Civil Defense | <u>68,105</u> | <u>77,797</u> | <u>77,183</u> | <u>614</u> |
| Soil Conservation District | 1,485 | 1,485 | 1,480 | 5 |
| Total Soil Conservation District | <u>1,485</u> | <u>1,485</u> | <u>1,480</u> | <u>5</u> |
| County City Jail | 174,865 | 174,865 | 174,836 | 29 |
| Total County City Jail | <u>174,865</u> | <u>174,865</u> | <u>174,836</u> | <u>29</u> |

continued on next page

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

MUSKOGEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

continued from previous page

| | Original Budget | Final Budget | Actual | Variance |
|---|--------------------|-----------------|---------------------|---------------------|
| School Record Clerk | 17,985 | 17,430 | 17,430 | |
| Total School Record Clerk | 17,985 | 17,430 | 17,430 | - |
| Sales Tax Revolving | 893,418 | 893,425 | 56,993 | 836,432 |
| Total Sales Tax Revolving | 893,418 | 893,425 | 56,993 | 836,432 |
| Sales Tax MCCDF | 75,703 | 75,703 | 21,827 | 53,876 |
| Total Sales Tax MCCDF | 75,703 | 75,703 | 21,827 | 53,876 |
| Sales Tax Renovation | 216,966 | 216,966 | | 216,966 |
| Total Sales Tax Renovation | 216,966 | 216,966 | - | 216,966 |
| Highway Budget | 242,500 | 239,059 | 231,559 | 7,500 |
| Total Highway Budget | 242,500 | 239,059 | 231,559 | 7,500 |
| County Audit Budget | 38,737 | 38,737 | 38,737 | |
| Total County Audit Budget | 38,737 | 38,737 | 38,737 | - |
| Free Fair Budget | 1,200 | 1,200 | 1,200 | |
| Total Free Fair Budget | 1,200 | 1,200 | 1,200 | - |
| Fire Fighter Services | 35,000 | 38,321 | 38,321 | |
| Total Fire Fighter Services | 35,000 | 38,321 | 38,321 | - |
| Provision for Interest on Warrants | - | 1,526 | 1,526 | - |
| Total Expenditures, Budgetary Basis | 6,243,322 | 6,333,120 | 5,148,177 | 1,184,943 |
| Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis | <u>\$ -</u> | <u>\$ -</u> | 1,769,132 | <u>\$ 1,769,132</u> |
| Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances | | | | |
| Add: Current Year Encumbrances | | | 52,991 | |
| Add: Current Year Outstanding Warrants | | | 240,443 | |
| Ending Cash Balance | | | <u>\$ 2,062,566</u> | |

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

**MUSKOGEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY HEALTH DEPARTMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | County Health Department Fund | | | |
|---|-------------------------------|------------------|-------------------|-------------------|
| | Original Budget | Final Budget | Actual | Variance |
| Beginning Cash Balances | \$ 873,434 | \$ 873,434 | \$ 873,434 | \$ - |
| Less: Prior Year Outstanding Warrants | (149,550) | (149,550) | (149,550) | |
| Less: Prior Year Encumbrances | (43,862) | (43,862) | (41,712) | 2,150 |
| Beginning Cash Balances, Budgetary Basis | <u>680,022</u> | <u>680,022</u> | <u>682,172</u> | <u>2,150</u> |
| Receipts: | | | | |
| Ad Valorem Taxes | 890,953 | 890,953 | 948,155 | 57,202 |
| Charges for Services | | 127,481 | 161,964 | 34,483 |
| Intergovernmental Revenues | | | 2,294 | 2,294 |
| Miscellaneous Revenues | | | 1,663 | 1,663 |
| Total Receipts, Budgetary Basis | <u>890,953</u> | <u>1,018,434</u> | <u>1,114,076</u> | <u>95,642</u> |
| Expenditures: | | | | |
| Health and Welfare | 1,405,151 | 1,532,632 | 1,158,187 | 374,445 |
| Capital Outlay | 165,824 | 165,824 | 7,346 | 158,478 |
| Total Expenditures, Budgetary Basis | <u>1,570,975</u> | <u>1,698,456</u> | <u>1,165,533</u> | <u>532,923</u> |
| Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis | <u>\$ -</u> | <u>\$ -</u> | 630,715 | <u>\$ 630,715</u> |
| Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances | | | | |
| Add: Current Year Encumbrances | | | 4,414 | |
| Add: Current Year Outstanding Warrants | | | 71,437 | |
| Ending Cash Balance | | | <u>\$ 706,566</u> | |

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

**MUSKOGEE COUNTY, OKLAHOMA
DETAILED SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES—SINKING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | |
|------------------------|------------------|
| Beginning Cash Balance | <u>\$ 49,561</u> |
| Receipts: | |
| Intergovernmental | <u>9,636</u> |
| Total Receipts | <u>9,636</u> |
| Disbursements: | |
| Judgments | 58,600 |
| Interest on Judgments | <u>298</u> |
| Total Disbursements | <u>58,898</u> |
| Ending Cash Balance | <u>\$ 299</u> |

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. Budgetary Schedules

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 Combined Statement of Receipts, Disbursements, and Changes in Cash Balances with Combining Information because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

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

2. Sinking Fund Schedule

Debt service receipts are derived generally from a special ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| Federal Grantor/Pass Through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Federal Expenditures |
|--|---------------------------|-------------------------------------|-------------------------|
| <u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> | | | |
| Passed Through State Department of Commerce: | | | |
| Community Development Block Grants/State's Program | 14.228 | | \$ 470,201 |
| Total U.S. Department of Housing and Urban Development | | | <u>470,201</u> |
| <u>U.S. DEPARTMENT OF JUSTICE</u> | | | |
| Public Safety Partnership and Community Policing Grants (COPS) | 16.710 | 2004UMWX0057 | 77,293 |
| Community Prosecution and Project Safe Neighborhoods | 16.609 | | 18,408 |
| JAG | | 2005-DJ-BX-0112 | 61,941 |
| Local Law Enforcement Block Grant Program | 16.592 | | 4,281 |
| Total U.S. Department of Justice | | | <u>161,923</u> |
| <u>U.S. DEPARTMENT OF TRANSPORTATION</u> | | | |
| Passed Through Oklahoma Highway Safety: | | | |
| State and Community Highway Safety | 20.600 | | 9,937 |
| Total U.S. Department of Transportation | | | <u>9,937</u> |
| <u>U.S. DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT</u> | | | |
| Passed Through State Department of Civil Emergency Management: | | | |
| Emergency Management Performance Grants (EMPG) | 97.042 | | 19,595 |
| Total U.S. Department of Federal Emergency Management | | | <u>19,595</u> |
| <u>U.S. DEPARTMENT OF DEFENSE</u> | | | |
| Passed Through State Department of Treasurer: | | | |
| Flood Control Projects | 12.106 | | 38,543 |
| Total U.S. Department of Defense | | | <u>38,543</u> |
| <u>U.S. DEPARTMENT OF THE INTERIOR</u> | | | |
| Payments in Lieu of Taxes | 15.226 | | 32,613 |
| Total U.S. Department of the Interior | | | <u>32,613</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 732,812</u> |

The accompanying notes are an integral part of this schedule.
See independent auditor's report.

MUSKOGEE COUNTY, OKLAHOMA
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**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 the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Muskogee County, Oklahoma, as of and for the year ended June 30, 2006, which 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 July 12, 2007. Our report on the basic financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. Also, our report describes certain responsibilities of the State Auditor and Inspector's Office other than audit responsibilities. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muskogee County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Muskogee County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-2, 2006-1 and 2006-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 98-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muskogee County's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 2006-4.

We also noted certain matters that we reported to the management of Muskogee County, which are included in Section 4 of the schedule of findings and questioned costs contained in this report.

This report is intended solely for the information and use of the County and should not be used 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.



JEFF A. McMAHAN
State Auditor and Inspector

July 12, 2007



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with
OMB Circular A-133**

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

Compliance

We have audited the compliance of Muskogee County, Oklahoma, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Muskogee County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Muskogee County's management. Our responsibility is to express an opinion on Muskogee County's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on Muskogee County's compliance with those requirements.

As described in item 2006-8, in the accompanying schedule of findings and questioned costs, Muskogee County did not comply with requirements regarding subrecipient monitoring that are applicable to its Community Development Block Grant. Compliance with such requirements is necessary, in our opinion, for Muskogee County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Muskogee County, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Muskogee County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Muskogee County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Muskogee County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-8.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of the County and should not be used 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.



JEFF A. McMAHAN
State Auditor and Inspector

July 12, 2007

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

SECTION 1—Summary of Auditor’s Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes
- Reportable condition(s) identified that are not considered to be material weakness(es)? No

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes

Identification of Major Programs

| | |
|---------------------------------|--|
| <u>CFDA Number(s)</u> 14.228 | <u>Name of Federal Program or Cluster</u> Community Development Block Grant |
|---------------------------------|--|

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 98-2—Segregation of Duties (Repeat Finding)

Criteria: The overall goal of effective internal controls as they relate to governmental entities in evaluating management's accounting for funds is to demonstrate accountability and stewardship. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, and depositing cash and checks should be segregated.

Condition: Based on inquiries of County personnel, it was noted that the duties of receiving, receipting, recording, and depositing collections were not adequately segregated.

Effect: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of assets.

Recommendation: We recommend management be aware of this condition and realize the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge of office operations and periodic review of operations.

Views of responsible officials and planned corrective actions: Management is aware of the condition and has taken steps to provide regular reviews to minimize the impact of the lack of adequate segregation of duties

Finding 2006-1—Purchasing Procedures

Criteria: Title 19 O.S. § 1505 provides that, "the following procedures shall be used by counties for the requisition, purchase, lease-purchase, rental, and receipt of supplies, materials, and equipment for the maintenance, operation, and capital expenditures of county government unless otherwise provided for by law." Part C.3 states that "no purchase order shall be valid unless signed by the county purchasing agent and certified by the county clerk"... Part E provides for the procedure for the receipt of items.

2. Upon the delivery of an item, the receiving officer shall determine if a purchase order exists for the item being delivered;
3. If no such purchase order has been provided, the receiving officer shall refuse delivery of the item;

Condition: During our review of 75 purchase orders, we noted nine instances (#s 1225, 1457, 1679, 1769, 3283, 5274, 5538, 5945, and 5858) or 12%, where the certification section of the purchase order had not been signed by the County Clerk or designate.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Effect: The County is not following internal control procedures established by state statutes, which could result in undetected errors and in some instances could result in misappropriation of assets.

Recommendation: We recommend management, after ensuring that the invoice, receiving report, and delivery documentation supports the purchase order, sign the certification section approving the purchase order for consideration for payment by the board of county commissioners. If, due to errors in the purchasing process, the County Clerk cannot certify that the purchase order is ready for payment, an explanation by the Clerk should be set forth on the face of the purchase order.

Views of responsible officials and planned corrective actions: The County Clerk and/or designee will begin writing on the face of the purchase order the errors noted on the purchase order.

Finding 2006-02—Cash Disbursements

Criteria: Title 19 O.S. § 1505 states, “The following procedures shall be used by counties for the requisition, purchase, lease-purchase, rental, and receipt of supplies, materials, and equipment for the maintenance, operation, and capital expenditures of county government unless otherwise provided for by law...

A. The procedure for requisitioning items for county offices shall be as follows:

1. The requesting department shall prepare a requisition form in triplicate. The requisition shall contain any specifications for an item as deemed necessary by the requesting department...

C. After selection of a vendor, the procedure for the purchase, lease-purchase, or rental of supplies, materials, and equipment used by a county shall be as follows:

3. If there is an unencumbered balance in the appropriation made for that purpose by the county excise board, the county clerk shall so certify in the following form: I hereby certify that the amount of this encumbrance has been entered against the designated appropriation accounts and that this encumbrance is within the authorized available balance of said appropriation...No purchase order shall be valid unless signed by the county purchasing agent and certified by the county clerk...

F. The following procedures are for the processing of purchase orders:

2. The board of county commissioners shall consider the purchase orders so presented and act upon the purchase orders, by allowing in full or in part or by holding for further information or disallowing the same. The disposition of purchase orders shall be indicated by the board of county commissioners, showing the amounts allowed or disallowed and shall be signed by at least two members of the board of county commissioners...”

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Condition: During our review of 75 purchase orders, we noted the following:

1. Six instances (#s 3395, 3403, 3404, 3417, 3999 and 4016), or 8%, where the purchase orders were not signed by the requisitioning officer.
2. One purchase order (# 3283) had not been signed by the purchasing agent and certified by the County Clerk.
3. Two purchase orders (#s 2348 and 2352) or 2.66% were not signed by the County Commissioners.
4. Five purchases were not approved by the County Commissioners prior to payment being made, due to the fact, that cash claims and vouchers were used instead of purchase orders and warrants.

Effect: The County is not following the internal control procedures established by state statutes, which could result in undetected errors and in some instances could result in misappropriation of assets.

Recommendation: We recommend management implement appropriate internal controls to assure the County's purchasing procedures conform to procedures established by state statutes. These controls should ensure that the requisitioning officer, purchasing agent, county clerk or designate, and board of county commissioners sign all purchase orders prior to payment being made. Additionally, all county purchases, with the exception of those funds specifically authorized by statute to be on cash voucher claims, should be on purchase orders approved by the County Commissioners with warrants issued.

Views of responsible officials and planned corrective actions: County management will strive to be more diligent in our efforts to verify all purchase orders are properly completed and approved prior to payments being made.

Finding 2006-04—Pledged Securities

Criteria: Title 62 O.S. § 511 states, "Any custodian of public funds of any kind or character, required by law to secure proper collateral before depositing public funds in a bank or trust company, shall hereafter, in depositing public funds in a bank or trust company whose deposits are insured by the Federal Deposit Insurance Corporation, be required to secure proper collateral only for sums deposited in excess of the amount of deposit insured by such Federal Deposit Insurance Corporation."

Title 62 O.S. § 513 states, "...treasurers of counties...having custody, control and management of any public or trust fund or funds charged with the safekeeping and deposit of said fund...are hereby specifically authorized to deposit said fund or funds...in an amount and to the extent that such deposit is fully insured by the Federal Savings and Loan Insurance Corporation or any other instrumentality of the United States Government." Title 62 O.S. § 517.3.A. states in part, "All public deposits made by a treasurer of a public entity in financial institutions shall be secured as provided for in the Security for Local Public Deposits Act." Also, 19 O.S. § 121 states in part, "the county treasurer shall take from each of such banks security in a sum equal to the largest approximate amount that may be deposited in each bank respectively at any one time."

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Condition: The County's bank account balances and investments were underpledged in the amount of \$2,210,583.48 as of December 31, 2005, with Bank of Oklahoma and \$801,867.81 as of June 30, 2006, with First National Bank.

Effect: This condition could result in loss of county funds.

Recommendation: We recommend the County Treasurer monitor county pledges routinely to ensure that deposits are adequately secured.

Views of responsible officials and planned corrective actions: The Treasurer will take steps immediately to ensure this does not reoccur.

SECTION 3—Findings related to the Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.

Finding 2006-8—Subrecipient Monitoring Compliance Requirement (M)

Criteria: OMB Circular A-133, § .400 (d) 3, states that a pass-through entity is responsible to, "Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition: Muskogee County is the pass-through entity for the Community Development Block Grant received from the Oklahoma Department of Commerce. The grant monies are then remitted to the Muskogee City-County Port Authority after a request for funds is approved by the Oklahoma Department of Commerce. There was no record in the Muskogee County files that reflected any monitoring for the federal award of the Community Development Block Grants expended in fiscal year 2006. In addition, the County was not aware of their responsibility to ensure that an audit should be made of the Port Authority's books and records.

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

Recommendation: We recommend that an appropriate official from Muskogee County be designated to monitor the federal award to the Muskogee City-County Port Authority. Monitoring should include inspecting the bid files, the procurement process, the contracts, labor standards and construction management. In addition, we also recommend that this official be responsible for ensuring that a sub-recipient audit is performed and that the Port Authority has duly met the compliance requirements associated with the grant.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Views of responsible officials and planned corrective actions: Management will correct this immediately and begin monitoring any pass-through grants.

SECTION 4—This section contains certain matters not required to be reported in accordance with *Government Auditing Standards* or OMB A-133. However, we believe these matters are significant enough to bring to management’s attention. We recommend that management consider these matters and take appropriate corrective action.

Finding 2006-03—Bid Procedures

Criteria: Title 19 O.S. § 1505.B.4 states, “The board of county commissioners in an open meeting shall open the sealed bids and compare them to the state contract price. The board of county commissioners shall select the lowest and best bid based upon the availability of material and transportation cost to the job site within thirty (30) days of the meeting...The board of county commissioners shall keep a written record of the meeting as required by law, and any time the lowest bid was not considered to be the lowest and best bid, the reason for such conclusion shall be recorded...”

Title 19 O.S. § 1505.B.5 states, “The county purchasing agent shall notify the successful bidder and shall maintain a copy of the notification. The county purchasing agent shall prepare and maintain a vendors list specifying the successful bidders and shall notify each county officer of the list...”

Condition: During our review of five bid packets for the county, we found one bid or 20%, in which the Board of County Commissioners did not correctly identify the successful bidder in the Commissioners’ meeting. In addition, we found four of the five bid packets or 80%, that did not contain documentation notifying the successful bidder.

Effect: The County is not following bid procedures established by state statutes.

Recommendation: We recommend management take steps to ensure that bidding procedures be followed and that all documentation supporting the bids be maintained by the purchasing agent.

Views of responsible officials and planned corrective actions: Management will implement procedures to take care of this situation immediately.

Finding 2006-05—Waived Penalties and Interest

Criteria: Title 68 O.S. § 2913.F states, “The county treasurer may waive penalties and interest where it is shown to the county treasurer that such penalties or interest were incurred through no fault of the taxpayer. Each waiver of penalties or interest shall be audited by the Office of the State Auditor and Inspector each year during the annual audit of the county offices.”

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Condition: It was noted in some instances that the County Treasurer's office waived penalties or interest during the 2006 fiscal year, and no documentation was maintained to determine the amount of penalties and interest waived or the reason for the waiver, other than documentation within the receipt, which cannot be individually identified as to waived amounts.

Effect: The County is not documenting evidence to support the waiver of penalties or interest, which could result in undetected errors and in some instances could result in misappropriation of assets.

Recommendation: We recommend that management record the dollar amount of the penalties and interest waived and the reason for the waiver of any delinquent taxes.

Views of responsible officials and planned corrective actions: This condition will be addressed immediately and documentation will be maintained in the future.

Finding 2006-6—Accounting Records

Criteria: Title 19 O.S. § 642 states in part, "The county treasurer shall keep a cash book, in which he shall enter an account of all money by him received..." To help ensure a proper accounting of funds, a reconciliation should be performed monthly of all bank accounts.

In addition 62 O.S. § 471.A states, "...all public funds of any county or of any subdivision thereof shall be disbursed only in the payment of legal warrants, bonds and interest coupons..."

Condition: We noted four bank accounts in the County's name and tax identification number that were not being accounted for on the Treasurer's general ledger. The accounts noted are as follows:

1. Employee Taxes
2. Community Development Block Grant (CDBG)
3. Employee Cafeteria Account (Flex Spending Account)
4. General Obligation Bond 2005-A

Effect: The County is not in compliance with state statutes, which could result in undetected errors and in some instances could result in misappropriation of assets.

Recommendation: We recommend management take steps to ensure all public fund accounts be maintained on the Treasurer's general ledger.

Views of responsible officials and planned corrective actions: These accounts will be added or turned over to third party administrators. The District Attorney's Office will be contacted to determine whether the General Obligation Bond 2005-A bank account should be maintained by the County Treasurer.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Finding 2006-7—Employee Flex Plan

Criteria: Article 10, § 15 states that credit of the State shall not be given, pledged or loaned to any individual, company, corporation, municipality, or political subdivision of the State.

Condition: During our fiscal year 2006 test work, we noted that Muskogee County started a Flex Plan Spending account in January of 2006, wherein employees pledge to invest a said amount of tax free money each month for the purpose of health and child care expenses. This money can be deducted from the account by an individual prior to the actual investment being made. In order to start up the program the County loaned the Flex Plan Account (county employees) \$2,000.00.

Effect: The possible violation of Article 10, § 15 of the Constitution of the State of Oklahoma.

Recommendation: We recommend that the County remove all county funds from the Flex Plan Spending Account and notify the administrator of the Flex Plan Account that the County can no longer provide financial support for the account. Also, the bank account should be maintained by the company administering the plan and the County's name and employer identification number be removed from the account.

Views of responsible officials and planned corrective actions: This will be taken care of at the end of the program period.

SA&I response: The Flex Plan Spending Account should be supported by individual employee contributions only. We re-emphasize that the County shall not give, pledge or loan any public funds to any individual, company, corporation, or association in order to comply with Article 10, § 15 of the Constitution of the State of Oklahoma.

Finding 2006-9—Personnel Files

Criteria: The overall goal of effective internal controls as they relate to governmental entities in evaluating management's accounting for funds is to demonstrate accountability and stewardship. To help ensure a proper accounting of funds, personnel files that include documentation supporting all employees' wages, benefits, and deductions should be maintained in the County Clerk's office.

Condition: During our review of payroll for FY06 we were unable to find documentation to support all employees receiving wages, benefits, and deductions from the County. It appears that personnel files are not being maintained for all county employees.

Effect: These conditions could result in undetected errors and in some instances the misappropriation of assets.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Recommendation: We recommend that management take steps to ensure that all employees have one personnel file containing all information for the employee and that it be updated every year. Additionally, we strongly recommend each Officer send new employees personally to the County Clerk's Office to sign up for payroll.

Views of responsible officials and planned corrective actions: This will be corrected.

Finding 2006-10—OPERS Benefits

Criteria: Title 74 O.S. § 902 (14) defines "employees" eligible to participate in employee retirement as those "whose employment is not seasonal or temporary and whose employment requires at least one thousand (1,000) hours of work per year..." receive OPERS benefits.

Condition: From test work performed on employees who worked for Muskogee County in FYE 2006, we noted two part-time employees and three full-time employees that did not receive OPERS benefits.

- 1) The Sheriff's Fund has three full-time employees that worked 1,979.50, 1,949, and 2006 hours, respectively, but did not receive OPERS benefits.
- 2) County Barn in District 2 had one part-time employee that worked 1,504 hours but did not receive OPERS benefits.
- 3) The Sheriff's Fund also has one part-time employee that worked 1,144.80 hours but did not receive OPERS benefits.

Effect: The County has employees who are not receiving benefits.

Recommendation: We recommend that all eligible employees receive OPERS benefits.

Views of responsible officials and planned corrective actions: County Officers will begin to watch the hours worked by part time employees and contact OPERS for any corrections and or payments that are due.