

STONE COUNTY, MISSISSIPPI

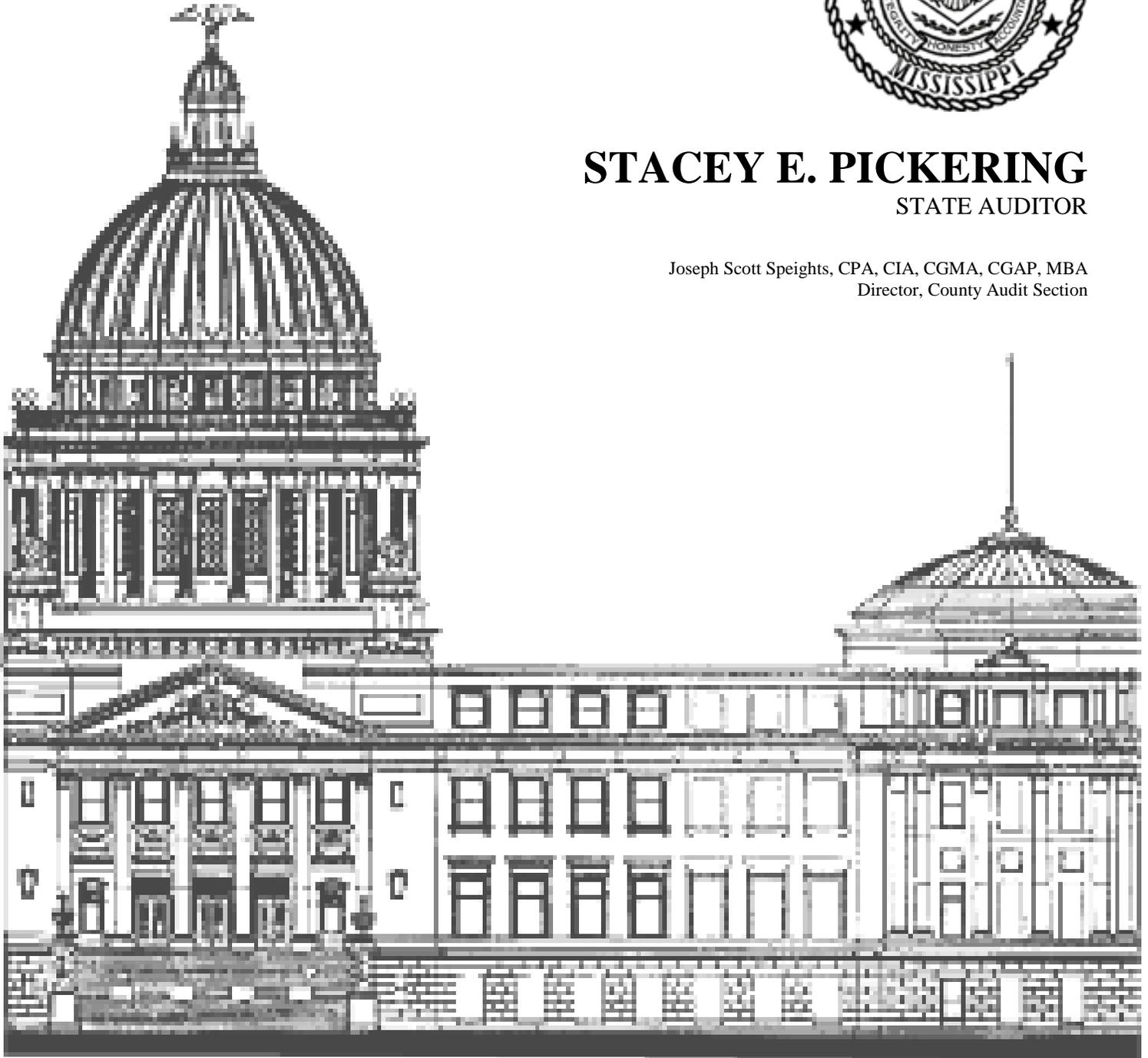
Audited Financial Statements and Special Reports
For the Year Ended September 30, 2013



STACEY E. PICKERING

STATE AUDITOR

Joseph Scott Speights, CPA, CIA, CGMA, CGAP, MBA
Director, County Audit Section



A Report from the County Audit Section

www.osa.state.ms.us

*The Office of the State Auditor does not discriminate on the basis of
race, religion, national origin, sex, age or disability*



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

July 24, 2015

Members of the Board of Supervisors
Stone County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2013 financial and compliance audit report for Stone County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed 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.

I appreciate the cooperation and courtesy extended by the officials and employees of Stone County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Stone County. If I or this office can be of any further assistance, please contact me or J. Scott Speights of my staff at (601) 576-2674.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering". The signature is fluid and cursive.

Stacey E. Pickering
State Auditor

STONE COUNTY

TABLE OF CONTENTS

FINANCIAL SECTION 1

INDEPENDENT AUDITOR’S REPORT 3

FINANCIAL STATEMENTS 7

 Statement of Net Position 9

 Statement of Activities 10

 Balance Sheet – Governmental Funds 11

 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position 12

 Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds 13

 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities 14

 Statement of Net Position – Proprietary Fund 15

 Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund 16

 Statement of Cash Flows – Proprietary Fund 17

 Statement of Fiduciary Assets and Liabilities 18

 Notes to Financial Statements 19

REQUIRED SUPPLEMENTARY INFORMATION 39

 Budgetary Comparison Schedule – (Budget and Actual (Non-GAAP Basis) - General Fund 41

 Budgetary Comparison Schedule – (Budget and Actual (Non-GAAP Basis) – Road and Bridge Fund 42

 Budgetary Comparison Schedule – (Budget and Actual (Non-GAAP Basis) – Countywide Bridge
 and Culvert Fund 43

 Notes to the Required Supplementary Information 45

SUPPLEMENTAL INFORMATION 47

 Schedule of Expenditures of Federal Awards 49

 Reconciliation of Operating Costs of Solid Waste 50

OTHER INFORMATION 51

 Schedule of Surety Bonds for County Officials 53

SPECIAL REPORTS 55

 Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and
 Other Matters Based on an Audit of the Financial Statements Performed in Accordance with
 Government Auditing Standards 57

 Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control
 Over Compliance Required by OMB Circular A-133 59

 Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase
 Clerk Schedules (Required by Section 31-7-115, Miss. Code Ann. (1972)) 63

 Limited Internal Control and Compliance Review Management Report 71

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 79

AUDITEE’S CORRECTIVE ACTION PLAN AND SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS 99

STONE COUNTY

FINANCIAL SECTION

STONE COUNTY

(This page left blank intentionally.)



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Stone County, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, (the County) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 opinions on these financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion on Governmental Activities

As discussed in Note 13 to the financial statements, the County has not recorded a liability for other postemployment benefits in the governmental activities and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that other postemployment benefits attributable to employee services already rendered be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net position and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position and expenses of the governmental activities is not reasonably determinable.

The County did not properly maintain and preserve adequate subsidiary records documenting the County's financing of a portion of its exposure to risk of loss relating to employee health and dental coverage. Due to the nature of the County's records, we were unable to satisfy ourselves as to the fair presentation of this activity. Additionally, a fiduciary fund type is used to report the risk-financing activity in the financial statements. Accounting principles generally accepted in the United States of America stipulate that fiduciary funds are to be used solely to report resources held by the County as a trustee or agent on behalf of an outside entity that cannot be used to support the County's own programs. The amount by which this departure would affect the assets and liabilities of the governmental activities is not reasonably determinable. The County also has not recorded a liability for unpaid claims and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that claims be accrued as liabilities and expenses as they are incurred, which would increase the liabilities, reduce net position, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion on Governmental Activities" paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Stone County, Mississippi, as of September 30, 2013, and the change in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on Business-Type Activities and Correctional Facility Fund

As discussed in Note 13 to the financial statements, the County has not recorded a liability for other postemployment benefits in the business-type activities and Correctional Facility Fund and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that other postemployment benefits attributable to employee services already rendered be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net position and change the expenses of the business-type activities and Correctional Facility Fund. The amount by which this departure would affect the liabilities, net position and expenses of the business-type activities and Correctional Facility Fund is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions on Business-Type Activities and Correctional Facility Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and Correctional Facility Fund of Stone County, Mississippi, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on the Aggregate Remaining Fund Information

The County did not properly maintain and preserve adequate subsidiary records documenting the County's financing of a portion of its exposure to risk of loss relating to employee health and dental coverage. Due to the nature of the County's records, we were unable to satisfy ourselves as to the fair presentation of this activity. Additionally, a fiduciary fund type is used to report the risk-financing activity in the financial statements. Accounting principles generally accepted in the United States of America stipulate that fiduciary funds are to be used solely to report resources held by the County as a trustee or agent on behalf of an outside entity that cannot be used to support the County's own programs.

The amount by which this departure would affect the assets and liabilities of the aggregate remaining fund information is not reasonably determinable. The County also has not recorded a liability for claims unpaid as of the date of the financial statements. Accounting principles generally accepted in the United States of America require that claims be accrued as liabilities as they are incurred, which would increase the liabilities of the aggregate remaining fund information. The amount by which this departure would affect the liabilities of the aggregate remaining fund information is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on the Aggregate Remaining Fund Information” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of Stone County, Mississippi, as of September 30, 2013, and the change in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, the Road and Bridge Fund, and the Countywide Bridge and Culvert Fund of Stone County, Mississippi, as of September 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules and corresponding notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Omission of Required Supplementary Information

Stone County, Mississippi, has omitted the Management’s Discussion and Analysis and the Schedule of Funding Progress – Other Postemployment Benefits that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stone County, Mississippi’s basic financial statements. 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 statements. The accompanying Reconciliation of Operating Costs of Solid Waste is also presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The Schedule of Expenditures of Federal Awards and the Reconciliation of Operating Costs of Solid Waste have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, 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 Reconciliation of Operating Costs of Solid Waste are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedule of Surety Bonds for County Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2015, on our consideration of Stone County, Mississippi'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 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 Stone County, Mississippi's internal control over financial reporting and compliance.



J. SCOTT SPEIGHTS, CPA
Director, County Audit Section

July 24, 2015

STONE COUNTY

FINANCIAL STATEMENTS

STONE COUNTY

(This page left blank intentionally.)

STONE COUNTY
Statement of Net Position
September 30, 2013

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash	\$ 310,652		310,652
Restricted assets - investments		2,815,540	2,815,540
Property tax receivable	4,820,190		4,820,190
Fines receivable (net of allowance for uncollectibles of \$721,189)	249,028		249,028
Loans receivable	122,439		122,439
Allowance for Uncollectible Accounts	(22,439)		(22,439)
Capital leases receivable	140,023		140,023
Intergovernmental receivables	203,489	562,766	766,255
Other receivables	77,275		77,275
Internal balances	(54,258)	54,258	0
Deferred charges - bond issuance costs		120,788	120,788
Capital assets:			
Land and construction in progress	980,283	18,821	999,104
Other capital assets, net	14,321,720	4,704,791	19,026,511
Total Assets	<u>21,148,402</u>	<u>8,276,964</u>	<u>29,425,366</u>
LIABILITIES			
Due to general depository	85,656	354,291	439,947
Claims payable	125,640	15,385	141,025
Intergovernmental payables	392,389		392,389
Accrued interest payable	2,407	44,294	46,701
Deferred revenue	4,831,747		4,831,747
Unearned revenue	4,515		4,515
Other payables	32,052		32,052
Long-term liabilities			
Due within one year:			
Capital debt	504,619	425,641	930,260
Non-capital debt		13,210	13,210
Due in more than one year:			
Capital debt	1,852,769	2,494,164	4,346,933
Non-capital debt	78,914	52,223	131,137
Total Liabilities	<u>7,910,708</u>	<u>3,399,208</u>	<u>11,309,916</u>
NET POSITION			
Net investment in capital assets	12,944,615	1,803,807	14,748,422
Restricted for:			
Expendable:			
General government	56,582		56,582
Public safety	376,973	2,247,584	2,624,557
Public works	814,648		814,648
Culture and recreation	19,489		19,489
Economic development and development	321,795		321,795
Unemployment compensation	22,160		22,160
Debt service		826,365	826,365
Unrestricted	(1,318,568)		(1,318,568)
Total Net Position	<u>\$ 13,237,694</u>	<u>4,877,756</u>	<u>18,115,450</u>

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

STONE COUNTY
Statement of Activities
For the Year Ended September 30, 2013

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 3,121,523	704,352	20,779		(2,396,392)		(2,396,392)
Public safety	2,678,170	277,628	493,687		(1,906,855)		(1,906,855)
Public works	4,010,678		2,440,737	322,558	(1,247,383)		(1,247,383)
Health and welfare	201,991		53,094		(148,897)		(148,897)
Culture and recreation	223,257	6,644			(216,613)		(216,613)
Education	105,348		105,348		0		0
Conservation of natural resources	57,791				(57,791)		(57,791)
Economic development and assistance	31,148			434,988	403,840		403,840
Interest on long-term debt	96,190				(96,190)		(96,190)
Total Governmental Activities	<u>10,526,096</u>	<u>988,624</u>	<u>3,113,645</u>	<u>757,546</u>	<u>(5,666,281)</u>		<u>(5,666,281)</u>
Business-type activities:							
Correctional Facility	3,733,142	4,061,895				328,753	328,753
Total Business-type Activities	<u>3,733,142</u>	<u>4,061,895</u>	<u>0</u>	<u>0</u>		<u>328,753</u>	<u>328,753</u>
Total Primary Government	<u>\$ 14,259,238</u>	<u>5,050,519</u>	<u>3,113,645</u>	<u>757,546</u>	<u>(5,666,281)</u>	<u>328,753</u>	<u>(5,337,528)</u>
General revenues:							
Property taxes					\$ 6,156,248		6,156,248
Road & bridge privilege taxes					205,686		205,686
Grants and contributions not restricted to specific programs					346,199		346,199
Unrestricted interest income					8,215	239	8,454
Miscellaneous					394,607	22,350	416,957
Total General Revenues					<u>7,110,955</u>	<u>22,589</u>	<u>7,133,544</u>
Changes in Net Position					<u>1,444,674</u>	<u>351,342</u>	<u>1,796,016</u>
Net Position - Beginning, as previously reported					11,255,222	4,585,451	15,840,673
Prior period adjustment					537,798	(59,037)	478,761
Net Position - Beginning, as restated					<u>11,793,020</u>	<u>4,526,414</u>	<u>16,319,434</u>
Net Position - Ending					<u>\$ 13,237,694</u>	<u>4,877,756</u>	<u>18,115,450</u>

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

STONE COUNTY
Balance Sheet - Governmental Funds
September 30, 2013

Exhibit 3

	<u>Major Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>County-Wide Bridge & Culvert Fund</u>		
ASSETS					
Cash	\$ 275,364			35,288	310,652
Property tax receivable	3,182,106	206,583	631,593	799,908	4,820,190
Fines receivable (net of allowance for uncollectibles of \$721,189)	249,028				249,028
Loans receivable				122,439	122,439
Allowance for Uncollectible Accounts				(22,439)	(22,439)
Capital lease receivable				140,022	140,022
Intergovernmental receivables	197,733			5,756	203,489
Other receivables	71,786			5,489	77,275
Due from other funds	9,844	380,817	372,262	880,333	1,643,256
Advances to other funds	12,368		3,456	5,925	21,749
Total Assets	\$ 3,998,229	587,400	1,007,311	1,972,721	7,565,661
LIABILITIES					
Liabilities:					
Due to general depository	\$ 85,656				85,656
Claims payable	52,387	24,521	12,786	35,946	125,640
Intergovernmental payables	152,753				152,753
Due to other funds	1,689,639	9,267		185,643	1,884,549
Advances from other funds	54,011	10,760		9,579	74,350
Deferred revenue	3,431,134	206,583	631,593	939,930	5,209,240
Unearned revenue				4,515	4,515
Other payables	32,052				32,052
Total Liabilities	\$ 5,497,632	251,131	644,379	1,175,613	7,568,755
Fund balances:					
Nonspendable:					
Advances	12,368				12,368
Restricted for:					
General government				56,582	56,582
Public safety				376,973	376,973
Public works		336,269	362,932	115,447	814,648
Culture and recreation				19,489	19,489
Economic development and assistance				193,329	193,329
Unemployment compensation				22,160	22,160
Committed to:					
Debt service				13,128	13,128
Unassigned	(1,511,771)				(1,511,771)
Total Fund Balances	\$ (1,499,403)	336,269	362,932	797,108	(3,094)
Total Liabilities and Fund Balances	\$ 3,998,229	587,400	1,007,311	1,972,721	7,565,661

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

STONE COUNTY

Exhibit 3-1

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2013

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ (3,094)
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$6,329,218.	15,302,003
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	249,028
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(2,436,302)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	(2,407)
Capital leases are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>128,466</u>
Total Net Position - Governmental Activities	\$ <u><u>13,237,694</u></u>

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

STONE COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2013

	Major Funds				Total Governmental Funds
	General Fund	Road and Bridge Fund	County-Wide Bridge and Culvert Fund	Other Governmental Funds	
REVENUES					
Property taxes	\$ 4,377,755	267,404	809,693	701,396	6,156,248
Road and bridge privilege taxes		205,686			205,686
Licenses, commissions and other revenue	290,579			7,793	298,372
Fines and forfeitures	446,051			69,307	515,358
Intergovernmental revenues	770,763	2,243,494	547,463	655,670	4,217,390
Charges for services	194,024				194,024
Interest income	998	532	600	6,085	8,215
Miscellaneous revenues	55,446	10,086		329,075	394,607
Total Revenues	<u>6,135,616</u>	<u>2,727,202</u>	<u>1,357,756</u>	<u>1,769,326</u>	<u>11,989,900</u>
EXPENDITURES					
Current:					
General government	3,010,865			22,398	3,033,263
Public safety	2,164,219			242,955	2,407,174
Public works	29,743	2,648,756	1,212,289	422,402	4,313,190
Health and welfare	173,491				173,491
Culture and recreation	184,853			8,568	193,421
Education	105,348				105,348
Conservation of natural resources	57,791				57,791
Economic development and assistance	3,775			247,032	250,807
Debt service:					
Principal	154,456	306,083		344,759	805,298
Interest	11,985	25,024		59,710	96,719
Total Expenditures	<u>5,896,526</u>	<u>2,979,863</u>	<u>1,212,289</u>	<u>1,347,824</u>	<u>11,436,502</u>
Excess of Revenues over (under) Expenditures	<u>239,090</u>	<u>(252,661)</u>	<u>145,467</u>	<u>421,502</u>	<u>553,398</u>
OTHER FINANCING SOURCES (USES)					
Long-term capital debt issued	60,295	143,009			203,304
Proceeds from sale of capital assets				7,628	7,628
Transfers in		69,468	29,301	408,868	507,637
Transfers out	(195,872)	(16,706)		(295,059)	(507,637)
Lease principal payments				23,534	23,534
Total Other Financing Sources and Uses	<u>(135,577)</u>	<u>195,771</u>	<u>29,301</u>	<u>144,971</u>	<u>234,466</u>
Net Changes in Fund Balances	103,513	(56,890)	174,768	566,473	787,864
Fund Balances - Beginning	<u>(1,602,916)</u>	<u>393,159</u>	<u>188,164</u>	<u>230,635</u>	<u>(790,958)</u>
Fund Balances - Ending	\$ <u>(1,499,403)</u>	<u>336,269</u>	<u>362,932</u>	<u>797,108</u>	<u>(3,094)</u>

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

STONE COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2013

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 787,864
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net position differs from the change in fund balances by the amount that capital outlays of \$864,984 exceeded depreciation of \$806,710 in the current period.	58,274
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the net loss of \$20,249 and the proceeds from the sale of \$7,628 in the current period.	(27,877)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	(19,130)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount that debt repayments of \$805,298 exceeded debt proceeds of \$203,304.	601,994
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:	
The amount of decrease in compensated absences liability.	66,552
The amount of decrease in accrued interest payable.	529
In the Statement of Activities, only interest income from payments received on capital leases are reported, whereas in the governmental funds, both principal and interest payments received increase financial resources. Thus, the change in net assets differs from changes in fund balances by the principal collections on the capital lease.	(23,534)
Rounding	<u>2</u>
Change in Net Position of Governmental Activities	<u>\$ 1,444,674</u>

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

STONE COUNTY
Statement of Net Position - Proprietary Fund
September 30, 2013

Exhibit 5

	Business-type Activities- Enterprise Fund
	<u>Correctional Facility Fund</u>
ASSETS	
Current assets:	
Restricted assets - investments	\$ 2,815,540
Intergovernmental receivables	562,766
Due from other funds	1,657
Advances to other funds	54,011
Total Current Assets	<u>3,433,974</u>
Noncurrent assets:	
Deferred charges - bond issuance costs	120,788
Capital assets:	
Land and construction in progress	18,821
Other capital assets, net	4,704,791
Total Noncurrent Assets	<u>4,844,400</u>
Total Assets	<u>8,278,374</u>
LIABILITIES	
Current liabilities:	
Due to general depository	354,291
Claims payable	15,385
Advances from other funds	1,410
Accrued interest payable	44,294
Capital debt:	
Capital leases payable	31,148
Other long-term liabilities	394,493
Non-capital debt:	
Other long-term liabilities	13,210
Total Current Liabilities	<u>854,231</u>
Noncurrent liabilities:	
Capital debt:	
Capital leases payable	11,696
Other long-term liabilities	2,482,468
Non-capital debt:	
Compensated absences payable	48,859
Other long-term liabilities	3,364
Total Noncurrent Liabilities	<u>2,546,387</u>
Total Liabilities	<u>3,400,618</u>
NET POSITION	
Net investment in capital assets	1,803,807
Restricted for:	
Debt service	826,365
Public safety	2,247,584
Total Net Position	<u>\$ 4,877,756</u>

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

STONE COUNTY

Exhibit 6

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund
For the Year Ended September 30, 2013

	Business-type Activities- Enterprise Fund
	<u>Correctional Facility Fund</u>
Operating Revenues	
Charges for services	\$ 4,061,895
Miscellaneous	22,350
Total Operating Revenues	<u>4,084,245</u>
Operating Expenses	
Personal services	2,042,078
Contractual services	574,456
Materials and supplies	802,025
Depreciation expense	168,635
Total Operating Expenses	<u>3,587,194</u>
Operating Income (Loss)	<u>497,051</u>
Nonoperating Revenues (Expenses)	
Interest income	239
Interest expense	(110,810)
Other expenses	(4,500)
Amortization of deferred charges - bond issuance costs	<u>(30,638)</u>
Total Nonoperating Revenue (Expenses)	<u>(145,709)</u>
Change in Net Position	<u>351,342</u>
Net Position - Beginning, as previously reported	4,585,451
Prior period adjustment	<u>(59,037)</u>
Net Position - Beginning, as restated	<u>4,526,414</u>
Net Position - Ending	<u>\$ 4,877,756</u>

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

STONE COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2013

Exhibit 7

	Business-type Activities Enterprise Fund
	<u>Correctional Facility Fund</u>
Cash Flows From Operating Activities	
Receipts from customers	\$ 4,087,094
Payments to suppliers	(1,373,561)
Payments to employees	(2,066,752)
Payments for insurance premiums	(41,083)
Other miscellaneous cash receipts	22,350
Net Cash Provided (Used) by Operating Activities	<u>628,048</u>
Cash Flows From Noncapital Financing Activities	
Cash received from other Funds:	
Loans from other funds	354,291
Principal paid on long-term debt	(12,820)
Interest expense	(705)
Cash paid to other funds:	
Loans made to other funds	(1,657)
Interfund loan repayments	(297,810)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>41,299</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(37,493)
Principal paid on long-term debt	(438,387)
Interest paid on debt	(115,143)
Fiscal agent fees	(4,500)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(595,523)</u>
Cash Flows From Investing Activities	
Interest on deposits	239
Net Cash Provided (Used) by Investing Activities	<u>239</u>
Net Increase (Decrease) in Cash and Cash Equivalents	74,063
Cash and Cash Equivalents at Beginning of Year	<u>2,741,477</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,815,540</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating income	\$ 497,051
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	168,635
Changes in assets and liabilities:	
(Increase) decrease in intergovernmental receivables	25,199
Increase (decrease) in claims payable	(38,163)
Increase (decrease) in compensated absences liability	(24,674)
Total Adjustments	<u>130,997</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 628,048</u>

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

STONE COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2013

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 70,557
Due from other funds	<u>239,636</u>
Total Assets	<u><u>\$ 310,193</u></u>
LIABILITIES	
Intergovernmental payables	<u>\$ 310,193</u>
Total Liabilities	<u><u>\$ 310,193</u></u>

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

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2013

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Stone County is a political subdivision of the State of Mississippi. The County is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Stone County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the County. There are no outside organizations that should be included as component units of the County's reporting entity.

State law pertaining to County government provides for the independent election of County officials. The following elected and appointed officials are all part of the County legal entity and therefore are reported as part of the primary government financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

B. Basis of Presentation.

The County's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information concerning the County as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

The Statement of Net Position presents the financial condition of the governmental activities and business-type activities of the County at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the County's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues, are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business-type activity or governmental function is self-financing or draws from the general revenues of the County.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2013

Fund Financial Statements:

Fund financial statements of the County are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into governmental, proprietary and fiduciary. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column as Other Governmental Funds.

C. Measurement Focus and Basis of Accounting.

The government-wide, proprietary funds and fiduciary funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the County. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

The revenues and expenses of proprietary funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The County reports the following major Governmental Funds:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Road and Bridge Fund - This fund is used to account for monies from specific revenue sources that are restricted for road maintenance.

Countywide Bridge and Culvert Fund - This fund is used to account for monies from specific revenue sources that are restricted for bridge maintenance.

The County reports the following major Enterprise Fund:

Regional Correctional Facility Fund – This fund is used to account for monies from inmate housing agreement income with the Mississippi Department of Corrections for housing state prisoners.

Additionally, the County reports the following fund types:

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

PROPRIETARY FUND TYPE

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the County has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the County, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2012 by the Government Finance Officers Association.

E. Deposits and Investments.

State law authorizes the County to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any County, municipality or school district of this state. Further, the County may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value.

F. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in the General Fund, if applicable, to indicate that they are not available for appropriation and are not expendable available financial resources.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2013

However, this is not applicable to advances reported in other governmental funds, which are reported, by definition, as restricted, committed, or assigned. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

H. Restricted Assets.

Proprietary Fund assets required to be held and used as specified in bond indentures have been reported as restricted assets. Certain resources set aside for the repayment of the County’s enterprise fund revenue bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The “revenue” account is used to account for all revenues of the correctional facility and to provide payment for operating and maintenance expenses as well as required monthly deposits to other accounts to meet minimum requirements of the trust agreement. The “depreciation and operating reserve” account is used to pay the costs of major repairs and replacements to the correctional facility, the costs of which are such that they should be spread over a number of years rather than charged as a current expense in a single year. The “excess revenue” account is used to pay the maintenance expense when other funds are insufficient to pay these expenses within established limitations. The “debt service reserve” account is used to segregate resources set aside to subsidize potential deficiencies from the County’s operation of the correctional facility that could adversely affect debt service payments. The “general” account is used to accumulate funds to pay the principal and interest payments due on the County’s enterprise fund revenue bonds. When both restricted and nonrestricted assets are available for use, the policy is to use the restricted assets first.

I. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. The extent to which capital asset costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Stone County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the County's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year’s depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

J. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary funds-Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

K. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as Net Position and displayed in three components:

Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net position - Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net position - All other net position not meeting the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned. The following are descriptions of fund classifications used by the County:

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2013

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the Board of Supervisors, the County's highest level of decision-making authority. This formal action is an order of the Board of Supervisors as approved in the board minutes.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the County's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the County's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

L. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the County. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

M. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

N. Compensated Absences.

The County has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements and Proprietary Funds financial statements. In fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

During the year, the County adopted a policy capping the amount of accumulated unpaid employee personal leave at 30 days. Prior to the implementation of this policy, an employee was compensated for all accumulated unpaid personal leave upon termination of employment with the County.

O. The County implemented the following standards issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The provisions of these standards have been incorporated into the financial statements and the notes.

(2) Prior Period Adjustments.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities – Governmental Activities

Explanation	Amount
To correct prior year errors in capital assets (see Note 8)	385,799
To record sales price of CMI Building (original principal balance of capital lease previously recorded as an operating lease)	240,000
To reclassify capital lease principal payments received in prior years	(88,000)
Rounding difference	(1)
Total	\$ <u>537,798</u>

Exhibit 2 – Statement of Activities – Business-type Activities

Exhibit 6 - Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund

Explanation	Amount
To correct prior year errors in capital assets (see Note 8)	\$ <u>(59,037)</u>

(3) Deposits and Investments.

Deposits:

The carrying amount of the County's total deposits with financial institutions at September 30, 2013, was \$381,209, and the bank balance was \$705,884. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. The County does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the County. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the County.

Investments:

As provided in Section 91-13-8, Miss. Code Ann. (1972), the following investments of the County are handled through a trust indenture between the County and the trustee related to the operations of the Stone County Regional Correctional Facility.

Investment balances at September 30, 2013, are as follows:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
SEI Daily Income Trust Mutual Fund	Less than one year	\$ <u>2,815,540</u>	AAA

Interest Rate Risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, Section 19-9-29, Miss. Code Ann. (1972) limits the maturity period of any investment to no more than one year.

Credit Risk. State law limits investments to those authorized by Sections 19-9-29 and 91-13-8, Miss. Code Ann. (1972). The County does not have a formal investment policy that would further limit its investments choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County does not have a formal policy for custodial credit risk. Of the County's investments, all of the underlying securities were uninsured, unregistered, and held in trust accounts by the investment's counterparty on behalf of the County, not in the name of the County.

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2013:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 577
General Fund	Road and Bridge Fund	9,267
Road and Bridge Fund	General Fund	281,994
Road and Bridge Fund	Other Governmental Funds	98,823
Bridge and Culvert Fund	General Fund	286,019
Bridge and Culvert Fund	Other Governmental Funds	86,243
Other Governmental Funds	General Fund	880,333
Enterprise Funds	General Fund	1,657
Agency Funds	General Fund	39,636
Agency Fund	General Fund	<u>200,000</u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

Total \$ 1,884,549

The majority of the receivables represent amounts received from various funds to cover deficit cash balances, errors in posting revenues and debt service expenditures. All other receivables represent either tax revenue collected in September, 2013 but not settled until October, 2013. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances from/to Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Fund	\$ 6,245
General Fund	Other Governmental Funds	6,123
Bridge and Culvert Fund	Other Governmental Funds	3,456
Other Governmental Funds	Road and Bridge Fund	4,515
Other Governmental Funds	Enterprise Fund	1,410
Enterprise Fund	General Fund	54,011
 Total		 \$ 75,760

The advances represent errors in posting revenues, debt proceeds, and debt service expenditures in prior years. These amounts are expected to be repaid within one year of the date of the financial statements.

C. Transfers In/Out:

Transfer In	Transfer Out	Amount
Road and Bridge Fund	Other Governmental Funds	69,468
Bridge and Culvert Fund	Other Governmental Funds	29,301
Other Governmental Funds	General Fund	195,872
Other Governmental Funds	Road and Bridge Fund	16,706
Other Governmental Funds	Other Governmental Funds	196,290
 Total		 \$ 507,637

The principal purpose of interfund transfers was to provide funds for grant matches or to provide funds to pay for capital outlay. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2013, consisted of the following:

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tax credit	\$ 79,596
Grant reimbursements	107,289
Other	<u>16,604</u>
Total Governmental Activities	<u>\$ 203,489</u>
Business-type Activities:	
Reimbursements for housing prisoners	\$ 551,663
Other	<u>11,103</u>
Total Business-type Activities	<u>\$ 562,766</u>

(6) Loans Receivable.

Loans receivable balances at September 30, 2013, are as follows:

<u>Description</u>	<u>Date of Loan</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Receivable Balance</u>
Emergency Medical Services District	June, 1987	N/A	N/A	\$ 22,439
Crown Castle Towers 09, LLC	March, 2013	2.00%	March, 2018	<u>100,000</u>
				122,439
Less: Allowance for doubtful accounts*				<u>(22,439)</u>
Total				<u>\$ 100,000</u>

*The Emergency Medical Services District loan receivable was determined to be uncollectible in fiscal year 1997.

(7) Restricted Assets.

The balances of the restricted asset accounts in the enterprise funds are as follows:

Revenue fund	\$ 830,326
Depreciation and operating reserve fund	500,075
Excess revenue fund	658,645
Debt service reserve fund	410,507
Mandatory redemption fund	128
General account	<u>415,859</u>
Total restricted assets	<u>\$ 2,815,540</u>

(8) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2013:

Governmental activities:

	<u>Balance Oct. 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>*Adjustments</u>	<u>Balance Sept. 30, 2013</u>
Non-depreciable capital assets:					
Land	\$ 470,756			(30,000)	440,756
Construction in progress	<u>734,318</u>	<u>645,025</u>		<u>(839,816)</u>	<u>539,527</u>
Total non-depreciable capital assets	<u>1,205,074</u>	<u>645,025</u>	<u>0</u>	<u>(869,816)</u>	<u>980,283</u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

	Balance Oct. 1, 2012	Additions	Deletions	*Adjustments	Balance Sept. 30, 2013
Depreciable capital assets:					
Infrastructure	66,890			1,509,874	1,576,764
Buildings	13,042,010			(269,842)	12,772,168
Improvements other than buildings	188,960				188,960
Mobile equipment	4,380,939	49,837	69,966	41,678	4,402,488
Furniture and equipment	405,996	7,229		49,940	463,165
Leased property under capital leases	1,176,118	162,893		(91,618)	1,247,393
Total depreciable capital assets	<u>19,260,913</u>	<u>219,959</u>	<u>69,966</u>	<u>1,240,032</u>	<u>20,650,938</u>
Less accumulated depreciation for:					
Infrastructure	3,618	44,252		14,228	62,098
Buildings	1,725,820	247,703		(32,388)	1,941,135
Improvements other than buildings	15,116	7,558			22,674
Mobile equipment	3,061,414	265,932	42,089	13,564	3,298,821
Furniture and equipment	313,337	23,467		47,053	383,857
Leased property under capital leases	460,875	217,798		(58,040)	620,633
Total accumulated Depreciation	<u>5,580,180</u>	<u>806,710</u>	<u>42,089</u>	<u>(15,583)</u>	<u>6,329,218</u>
Total depreciable capital assets, net	<u>13,680,733</u>	<u>(586,751)</u>	<u>27,877</u>	<u>1,255,615</u>	<u>14,321,720</u>
Governmental activities capital assets, net	<u>\$ 14,885,807</u>	<u>58,274</u>	<u>27,877</u>	<u>385,799</u>	<u>15,302,003</u>
Business-type activities:					
	Balance Oct. 1, 2012	Additions	Deletions	*Adjustments	Balance Sept. 30, 2013
Non-depreciable capital assets:					
Land	\$ 12,957				12,957
Construction in progress	114,516	8,595		(117,247)	5,864
Total non-depreciable capital assets	<u>127,473</u>	<u>8,595</u>	<u>0</u>	<u>(117,247)</u>	<u>18,821</u>
Depreciable capital assets:					
Buildings	5,851,356			60,801	5,912,157
Mobile equipment	87,264			72,730	159,994
Furniture and equipment	157,106	28,898			186,004
Leased property under capital leases	160,990			(72,729)	88,261
Total depreciable capital assets	<u>6,256,716</u>	<u>28,898</u>	<u>0</u>	<u>60,802</u>	<u>6,346,416</u>
Less accumulated depreciation for:					
Buildings	1,263,815	118,249		813	1,382,877
Mobile equipment	60,703	16,664		39,282	116,649
Furniture and equipment	90,708	17,832		1,778	110,318
Leased property under capital leases	55,172	15,890		(39,282)	31,780
Total accumulated					

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

Depreciation	<u>1,470,398</u>	<u>168,635</u>	<u>0</u>	<u>2,591</u>	<u>1,641,624</u>
Total depreciable capital assets, net	<u>4,786,318</u>	<u>(139,737)</u>	<u>0</u>	<u>58,211</u>	<u>4,704,792</u>
Business-type activities capital assets, net	\$ <u>4,913,791</u>	<u>(131,142)</u>	<u>0</u>	<u>(59,036)</u>	<u>4,723,613</u>

* Adjustments are to correct errors in the capital asset records and to reflect certain routine reclassifications of completed construction in progress and paid-off capital leases.

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 93,492
Public safety	382,935
Public works	247,338
Health and welfare	28,500
Culture and recreation	30,172
Economic development and assistance	<u>24,273</u>
Total governmental activities depreciation expense	\$ <u>806,710</u>
Business-type activities:	
Correctional facility	\$ <u>168,635</u>

Commitments with respect to unfinished capital projects at September 30, 2013, consisted of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
Tyner Branch Road Bridge Replacement	\$ 108,257	November, 2013
J. Cooper Road Bridge Replacement	225,702	November, 2013
Big Four Road Bridge Replacement	208,492	June, 2014

(9) Claims and Judgments.

Risk Financing.

The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2013, to January 1, 2014. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(10) Operating Leases.

As Lessee:

The County has entered into certain operating leases which do not give rise to property rights. Total costs for such leases were \$41,508 for the year ended September 30, 2013. The future minimum lease payments for these leases are as follows:

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

Year Ended September 30	Amount
2014	\$ 41,508
2015	41,508
2016	41,508
2017	41,508
2018	41,508
2019 – 2023	200,622
Total Minimum Payments Required	\$ 408,162

(11) Capital Leases.

As Lessor:

The County leases the following property with varying terms and options as of September 30, 2013:

Classes of Property	Amount
Buildings	\$ 269,842

The future minimum lease receivable and the present value of the net minimum lease receivable as of September 30, 2013, is as follows:

Year Ended September 30	Principal	Interest
2014	\$ 24,371	4,108
2015	25,238	3,241
2016	26,136	2,343
2017	27,065	1,414
2018	25,655	451
Total	\$ 128,465	11,557

As Lessee:

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2013:

Classes of Property	Governmental Activities	Business-type Activities
Mobile equipment	\$ 1,139,182	88,261
Furniture and equipment	108,211	0
Total	1,247,393	88,261
Less: Accumulated depreciation	(620,633)	(31,780)
Leased Property Under Capital Leases	\$ 626,760	56,481

The following is a schedule by years of the total payments due as of September 30, 2013:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 225,099	10,696	31,148	882
2015	158,276	6,036	11,696	94
2016	96,078	3,364		
2017	69,771	1,466		
2018	42,650	450		

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

	\$	<u>591,874</u>	<u>22,012</u>	<u>42,844</u>	<u>976</u>
--	----	----------------	---------------	---------------	------------

(12) Short-term Debt and Liquidity.

The following is a summary of short-term debt activity for the year ended September 30, 2013:

Description of Debt	Balance Oct. 1, 2012	Additions	Reductions	Adjustment	Balance Sept. 30, 2013
2012 tax anticipation promissory note	\$ 305,150		305,150		0
Grant anticipation promissory note – storm shelters	267,264		267,264		0
Grant anticipation promissory note – Old Hwy 49 project	451,089	129,746	580,835		0
2013 tax anticipation promissory note	0	737,150	737,150		0
Grant anticipation promissory note – Inda Rd. project	<u>0</u>	<u>144,386</u>	<u>144,386</u>		<u>0</u>
Total	\$ <u>1,023,503</u>	<u>1,011,282</u>	<u>2,034,785</u>	<u>0</u>	<u>0</u>

During the month of November, 2011, the County issued a \$500,000 tax anticipation note with an interest rate of 1.99% and a maturity date of April, 2012, in order to alleviate an operating cash flow deficiency. In May, 2012, the County renewed the unpaid portion of the tax anticipation note in the amount of \$305,150, thereby extending the maturity date to May, 2013. The note was repaid in February, 2013.

During the month of July, 2012, the County issued a \$567,000 grant anticipation note with an interest rate of 1.39% and a maturity date of July, 2013. The note was issued in order to provide funds for the completion of the storm shelter project in anticipation of reimbursement of project expenditures from the awarded grant funds. The note was repaid in August, 2013.

During the month of November, 2011, the County issued a \$714,000 promissory note with an interest rate of 1.74% and a maturity date of November, 2012. The note was issued in order to provide funds for the completion of the Old Highway 49 road improvement project in anticipation of reimbursement of project expenditures from the awarded grant funds. In December, 2012, the County renewed the unpaid portion of the grant anticipation note in the amount of \$401,194, thereby extending the maturity date to May, 2013. In June, 2013, the County again renewed the unpaid portion of the grant anticipation note in the amount of \$129,746, thereby extending the maturity date to August, 2013. The note was repaid in August, 2013.

During the month of October, 2012, the County issued a \$737,150 tax anticipation note with an interest rate of 1.15% and a maturity date of April, 2013, in order to alleviate an operating cash flow deficiency. The note was repaid in April, 2013.

During the month of November, 2012, the County issued a \$144,386 grant anticipation note with an interest rate of 1.25% and a maturity date of July, 2013. The note was issued in order to provide funds for the completion of the Inda Road improvement project in anticipation of reimbursement of project expenditures from the awarded grant funds. The note was repaid in August, 2013.

(13) Other Postemployment Benefits.

Plan Description

The Stone County Board of Supervisors administers the County's health, dental, and vision insurance plans which are authorized by Sections 25-15-101 et seq., Mississippi Code Ann. (1972). The County's health, dental, and vision insurance plans may be amended by the Stone County Board of Supervisors. The County purchases health,

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

dental, and vision insurance coverage from a commercial insurance company and offers health insurance benefit coverage through the County's health insurance plan (the Plan). The County is also self-insured in respect to supplemental health insurance and, until August 31, 2013, was also self-insured with respect to dental insurance. Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the County has a postemployment healthcare benefit reportable under GASB Statement 45 as a single employer defined benefit health care plan. However, the County has not recorded a liability for other postemployment benefits nor has the County reported the note disclosures which are required by accounting principles generally accepted in the United States of America.

(14) Long-term Debt.

Debt outstanding as of September 30, 2013, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
General obligation bonds, Series 2003	\$ <u>820,000</u>	3.37-3.70%	03/2018
B. Capital Leases:			
Two 2010 Dodge Chargers	\$ 8,927	3.71%	04/2014
Two 2011 Dodge Chargers	14,720	3.00%	07/2014
2009 FFA pumper fire truck	60,705	3.18%	01/2015
2010 Freightliner tanker truck	69,199	3.14%	02/2015
2012 Durapatcher	20,005	1.56%	09/2015
Tiger boom mower	23,991	2.65%	10/2015
2013 Dodge Charger	18,640	3.95%	02/2016
Motorola MC5500 consoles	14,268	4.27%	07/2016
Two 2012 Mack garbage trucks	264,505	1.82%	06/2017
2013 Ford F150 pickup	26,405	3.00%	02/2018
Caterpillar backhoe/loader	<u>70,509</u>	1.94%	04/2018
Total Capital Leases	\$ <u>591,874</u>		
C. Other Loans:			
2009 road paving note	\$ 210,769	3.25%	12/2014
HVAC control system	37,411	1.35%	10/2016
2012 road paving note	620,055	1.55%	05/2017
MDA capital Improvements revolving loan – CMI building	<u>77,279</u>	3.00%	08/2018
Total Other Loans	\$ <u>945,514</u>		
Business-type Activities:			
A. Limited Obligation Bonds:			
Stone County Regional Correctional Facility	\$ <u>2,940,000</u>	3.10-4.00%	11/2019
B. Capital Leases:			
2011 Ford F150 pickup	\$ 12,768	3.00%	11/2014
2011 Ford F150 pickup	15,604	3.20%	01/2015
2012 Ford E350T van	<u>14,472</u>	3.00%	05/2015
Total Capital Leases	\$ <u>42,844</u>		

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

C. Other Loans:

2011 Ford F150 pickup	\$	<u>16,574</u>	3.00%	12/2014
-----------------------	----	---------------	-------	---------

Pledge of Future Revenues - The County has pledged future revenues for housing inmates, net of specified operating expenses, to repay \$4,105,000 in limited obligation urban renewal revenue bonds issued in September, 2009. Proceeds from the bonds provided financing for refunding the Urban Renewal Revenue Bonds issued in 1999, which were used for the construction of the Stone County Regional Correctional Facility. The bonds are not a general obligation of the County and, therefore, are not secured by the full faith and credit of the County. The bonds are payable solely from income derived from an inmate housing agreement with the Mississippi Department of Corrections for housing state prisoners and income received from any other governments for housing and holding prisoners and are payable through November, 2019. Annual principal and interest payments on the bonds are expected to require less than 24 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$3,328,632. Principal and interest paid for the current year and total inmate housing net revenues were \$502,350 and \$4,061,895, respectively.

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Position are as follows:

Governmental Activities:

Year Ending September 30	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2014	\$ 150,000	26,356	129,523	16,186
2015	155,000	21,190	135,699	13,875
2016	165,000	15,668	28,720	10,895
2017	170,000	9,720	637,694	10,299
2018	<u>180,000</u>	<u>3,300</u>	<u>13,878</u>	<u>188</u>
Total	\$ <u>820,000</u>	<u>76,234</u>	<u>945,514</u>	<u>51,443</u>

Business-type Activities:

Year Ending September 30	Limited Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2014	\$ 405,000	100,027	13,210	316
2015	420,000	87,240	3,364	17
2016	430,000	74,065		
2017	440,000	58,600		
2018	460,000	40,600		
2019 – 2023	<u>785,000</u>	<u>28,100</u>		
Total	\$ <u>2,940,000</u>	<u>388,632</u>	<u>16,574</u>	<u>333</u>

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the County is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a County issues bonds to repair or replace washed out or collapsed bridges on the public roads of the County. As of September 30, 2013, the amount of outstanding debt was equal to .73% of the latest property assessments.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2013:

	Balance Oct. 1, 2012	Additions	Reductions	Balance Sept. 30, 2013	Amount due within one year
Governmental Activities:					
Compensated absences	\$ 145,467		66,554	78,913	
General obligation bonds	965,000		145,000	820,000	150,000
Capital leases	703,492	162,893	274,511	591,874	225,099
Other loans	1,290,890	40,411	385,787	945,514	129,523
Total	\$ 3,104,849	203,304	871,852	2,436,301	504,622
Business-type Activities:					
Compensated absences	\$ 73,533		24,674	48,859	
Limited obligation bonds	3,330,000		390,000	2,940,000	405,000
Less:					
Deferred amount on refunding	(54,460)		(7,780)	(46,680)	(7,780)
Discounts	(19,086)		(2,727)	(16,359)	(2,727)
Capital leases	91,231		48,387	42,844	31,148
Other loans	29,394		12,820	16,574	13,210
Total	\$ 3,450,612	0	465,374	2,985,238	438,851

Compensated absences will be paid from the fund from which the employees' salaries were paid which are generally the General Fund, Road and Bridge Fund, Garbage and Solid Waste Fund and Correctional Facility Fund.

(15) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2013:

Fund	Deficit Amount
General Fund	\$ 1,499,403
Road and Bridge Debt Service Fund	3,008
Perkinston Elementary Shelter Fund	58,378
Stone Elementary Shelter Fund	59,191
Stone High School Shelter Fund	54,917
Storm Shelters Debt Fund	12,580
Inda Road Improvement Project Fund	8,976

(16) Contingencies.

Federal Grants - The County has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the County. No provision for any liability that may result has been recognized in the County's financial statements.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

Litigation - The County is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the County with respect to the various proceedings. However, the County's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the County.

(17) Joint Ventures.

The County participates in the following joint ventures:

Stone County is a participant with the counties of Greene and Perry in a joint venture authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Pine Forest Regional Library System. This joint venture was created to provide free library service for the citizens of the respective counties and is governed by a five-member board of trustees. Each County appoints at least one board member and may appoint two at the discretion of the County. By contractual agreement, the County's appropriation to the joint venture was \$70,064 in fiscal year 2013. Complete financial statements for the Pine Forest Regional Library can be obtained from Post Office Box 1208, Richton, Mississippi 39476.

Stone County is a participant with the City of Wiggins in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1972), to operate the Stone-Wiggins Airport Board. The joint venture was created to provide an airport for the citizens of Stone County and is governed by a board of commissioners consisting of five members, with Stone County and the City of Wiggins appointing two members each and one member appointed jointly by the city and County. By contractual agreement, the County's appropriation to the joint venture was \$4,000 in fiscal year 2013. Complete financial statements for the Stone Wiggins Airport Board can be obtained from 206 Big Four Road, Wiggins, Mississippi 39577.

(18) Jointly Governed Organizations.

The County participates in the following jointly governed organizations:

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Stone County Board of Supervisors appoints one of the 27 members of the board of directors. The County contributes a small percentage of the district's total revenue. The County appropriated \$15,447 for support of the district in fiscal year 2013.

Region XIII Commission for Mental Health and Mental Retardation operates in a district composed of the Counties of Hancock, Harrison, Pearl River and Stone. The governing body is a four-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties. The County appropriated \$27,500 for support of the agency in fiscal year 2013.

Mississippi Regional Housing Authority VIII operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The governing body is a 15-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties and one appointed at large. The counties generally provide no financial support to the organization.

Mississippi Gulf Coast Community College operates in a district composed of the Counties of George, Harrison, Jackson and Stone. The college's board of trustees is composed of 23 members, three each appointed by George and Stone Counties, eight each appointed by Harrison and Jackson Counties, and one appointed at large. The County appropriated \$726,423 for maintenance and support of the college in fiscal year 2013.

Southeast Mississippi Air Ambulance District operates in a district composed of the counties of Covington, Forrest, Greene, Jefferson Davis, Marion, Pearl River, Perry, Stone and Walthall. The Stone County Board of Supervisors appoints one of the nine members of the board of directors. The County contributed \$23,600 for support of the District in fiscal year 2013.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

(19) Defined Benefit Pension Plan.

Plan Description. Stone County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. At September 30, 2013, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The rate at September 30, 2013 was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ending September 30, 2013, 2012 and 2011 were \$614,572, \$547,554 and \$500,636, respectively, equal to the required contributions for each year.

(20) Subsequent Events.

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of Stone County evaluated the activity of the County through July 24, 2015, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

Subsequent to September 30, 2013, the County issued the following debt obligations:

Issue Date	Interest Rate	Issue Amount	Type of Financing	Source of Financing
10/25/2013	1.10%	\$ 750,000	Tax Anticipation Note*	Ad Valorem Taxes
11/01/2013	1.35%	37,411	Other Loan	Ad Valorem Taxes
03/06/2014	1.45%	41,902	Capital Lease	Ad Valorem Taxes
04/21/2014	1.45%	15,000	Capital Lease	Ad Valorem Taxes
04/21/2014	1.45%	16,775	Capital Lease	Ad Valorem Taxes
05/13/2014	1.90%	38,848	Capital Lease	Ad Valorem Taxes
08/27/2014	1.71%	20,761	Capital Lease	Ad Valorem Taxes
08/27/2014	1.71%	28,573	Capital Lease	Ad Valorem Taxes
09/11/2014	1.25%	550,000	Tax Anticipation Note	Ad Valorem Taxes
10/10/2014	1.60%	48,699	Capital Lease	Ad Valorem Taxes
10/15/2014	1.71%	45,000	Capital Lease	Ad Valorem Taxes
10/30/2014	1.78%	22,154	Capital Lease	Ad Valorem Taxes
11/20/2014	2.24%	372,248	Capital Lease	Ad Valorem Taxes
02/25/2015	1.94%	28,699	Capital Lease	Ad Valorem Taxes
03/25/2015	1.94%	39,122	Capital Lease	Ad Valorem Taxes
03/30/2015	1.89%	55,422	Capital Lease	Ad Valorem Taxes

*As of March 17, 2014, this tax anticipation note has been repaid.

STONE COUNTY

(This page left blank intentionally.)

STONE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

STONE COUNTY

(This page left blank intentionally.)

STONE COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2013
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 4,207,257	4,365,832	4,365,831	(1)
Licenses, commissions and other revenue	311,500	333,445	330,594	(2,851)
Fines and forfeitures	372,000	452,844	452,844	
Intergovernmental revenues	432,500	437,912	437,912	
Charges for services	167,000	170,734	170,734	
Interest income	2,000	1,011	1,011	
Miscellaneous revenues	57,500	35,854	35,854	
Total Revenues	<u>5,549,757</u>	<u>5,797,632</u>	<u>5,794,780</u>	<u>(2,852)</u>
EXPENDITURES				
Current:				
General government	3,459,969	4,343,533	4,344,254	(721)
Public safety	2,169,784	2,213,348	2,227,906	(14,558)
Public works	7,500	29,743	29,743	0
Health and welfare	242,217	266,595	266,800	(205)
Culture and recreation	188,806	183,876	183,876	
Conservation of natural resources	55,760	58,136	58,136	
Economic development and assistance	3,500	3,775	3,775	
Total Expenditures	<u>6,127,536</u>	<u>7,099,006</u>	<u>7,114,490</u>	<u>(15,484)</u>
Excess of Revenues over (under) Expenditures	<u>(577,779)</u>	<u>(1,301,374)</u>	<u>(1,319,710)</u>	<u>(18,336)</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	432,000	22,884	22,884	
Compensation for loss of capital assets	5,000	1,243	1,243	
Transfers in	100,268	327,569	327,569	
Other financing sources	41,785	101,530	101,530	
Total Other Financing Sources and Uses	<u>579,053</u>	<u>453,226</u>	<u>453,226</u>	<u>0</u>
Net Change in Fund Balance	1,274	(848,148)	(866,484)	(18,336)
Fund Balances - Beginning	<u>(1,075,000)</u>	<u>(1,379,091)</u>	<u>(1,379,091)</u>	<u>0</u>
Fund Balances - Ending	<u>\$ (1,073,726)</u>	<u>(2,227,239)</u>	<u>(2,245,575)</u>	<u>(18,336)</u>

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

STONE COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Road and Bridge Fund
 For the Year Ended September 30, 2013
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 265,272	266,921	266,921	
Road and bridge privilege taxes	200,000	204,758	204,758	
Licenses, commissions and other revenue	2,600	2,700	2,700	
Intergovernmental revenues	560,600	610,368	610,368	
Interest income	750	532	532	
Miscellaneous revenues	85,000	113,229	113,229	
Total Revenues	<u>1,114,222</u>	<u>1,198,508</u>	<u>1,198,508</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	1,107,799	1,462,229	1,462,229	
Total Expenditures	<u>1,107,799</u>	<u>1,462,229</u>	<u>1,462,229</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>6,423</u>	<u>(263,721)</u>	<u>(263,721)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued		29,633	29,633	
Transfers in		69,467	69,467	
Other financing sources		25,734	25,734	
Total Other Financing Sources and Uses	<u>0</u>	<u>124,834</u>	<u>124,834</u>	<u>0</u>
Net Change in Fund Balance	6,423	(138,887)	(138,887)	
Fund Balances - Beginning	<u>350,000</u>	<u>401,040</u>	<u>401,040</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 356,423</u>	<u>262,153</u>	<u>262,153</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

STONE COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 County wide Bridge and Culvert Fund
 For the Year Ended September 30, 2013
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 800,094	806,935	806,935	
Licenses, commissions and other revenue	2,400	2,500	2,500	
Intergovernmental revenues	100,000	222,405	222,405	
Interest income	600	600	600	
Miscellaneous revenues	25,000	0	0	
Total Revenues	<u>928,094</u>	<u>1,032,440</u>	<u>1,032,440</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	784,465	963,166	963,166	
Total Expenditures	<u>784,465</u>	<u>963,166</u>	<u>963,166</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>143,629</u>	<u>69,274</u>	<u>69,274</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		29,301	29,301	
Total Other Financing Sources and Uses	<u>0</u>	<u>29,301</u>	<u>29,301</u>	<u>0</u>
Net Change in Fund Balance	143,629	98,575	98,575	
Fund Balances - Beginning	<u>180,000</u>	<u>176,537</u>	<u>176,537</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 323,629</u>	<u>275,112</u>	<u>275,112</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

STONE COUNTY

(This page left blank intentionally.)

STONE COUNTY

Notes to the Required Supplementary Information
For the Year Ended September 30, 2013
UNAUDITED

A. Budgetary Information.

Statutory requirements dictate how and when the County's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the County, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff and the Tax Assessor-Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The County's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major Special Revenue Fund:

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Countywide Bridge and Culvert Fund</u>
Budget (Cash Basis)	\$ (866,484)	(138,887)	98,575
Increase (Decrease)			
Net adjustments for revenue accruals	(52,095)	1,616,337	325,316
Net adjustments for expenditure accruals	<u>1,022,092</u>	<u>(1,534,340)</u>	<u>(249,123)</u>
GAAP Basis	\$ <u>103,513</u>	<u>(56,890)</u>	<u>174,768</u>

STONE COUNTY

Notes to the Required Supplementary Information
For the Year Ended September 30, 2013
UNAUDITED

D. Excess of Actual Expenditures Over Budget in Individual Funds.

The following fund had an excess of actual expenditures over budget for the year ended September 30, 2013:

<u>Fund</u>	<u>Excess</u>
General Fund	\$ <u>15,484</u>

The fund is in violation of Section 19-11-17, Miss. Code Ann. (1972). However, the County has no liability associated with these violations.

STONE COUNTY

SUPPLEMENTAL INFORMATION

STONE COUNTY

(This page left blank intentionally.)

STONE COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2013

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture/Passed-through the Mississippi State Treasurer's Office Schools and roads - grants to states*	10.665	N/A	\$ <u>237,448</u>
U.S. Department of Commerce Investments for public works and economic development facilities (Direct Award)	11.300	04-79-06388	<u>64,873</u>
U.S. Department of Justice/ Passed-through the Mississippi Department of Public Safety JAG Program Cluster*			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	11LB1661	<u>5,756</u>
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program / grants to states and territories	16.803	09ZI1661	<u>7,961</u>
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program / grants to units of local governments	16.804	2010-SB-B9-0047	<u>31,040</u>
Total U.S. Department of Justice			<u>44,757</u>
U.S. Department of Transportation - Federal Highway Administration/ Passed - through the Mississippi Department of Transportation Highway planning and construction	20.205	BR NBIS 078 B(66)	<u>22,880</u>
U.S. Department of Transportation/ Passed-through the Mississippi Department of Public Safety Alcohol open container requirements*	20.607	13-TA-166-1	<u>71,146</u>
Total U.S. Department of Transportation			<u>94,026</u>
U.S. Department of Homeland Security Passed through the Mississippi Emergency Management Agency Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4081-DR-MS	<u>62,300</u>
Hazard Mitigation Grant	97.039	1916-6	<u>11,250</u>
Emergency Management Performance Grants	97.042	11EMPG	18,126
Emergency Management Performance Grants	97.042	12EMPL	21,673
Emergency Management Performance Grants	97.042	13EMPL	<u>23,294</u>
Subtotal			<u>63,093</u>
Total U.S. Department of Homeland Security			<u>136,643</u>
Total Expenditures of Federal Awards			\$ <u><u>577,747</u></u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

* Denotes major federal award program

STONE COUNTY
 Reconciliation of Operating Costs of Solid Waste
 For the Year Ended September 30, 2013

Operating Expenditures, Cash Basis:

Salaries	\$	131,656
Contractual Services		11,214
Expendable Commodities:		
Gasoline and petroleum products		94,240
Repair parts		18,771
Clothing		652
Maintenance		1,039
Professional fees, legal advertising and other fees		129,201
Insurance on equipment		2,297
Supplies		2,457
Interest on capital leases		<u>6,126</u>
Solid Waste Cash Basis Operating Expenditures		397,653
Full Cost Expenses:		
Indirect administrative costs		2,287
Depreciation on equipment		<u>64,152</u>
Solid Waste Full Cost Operating Expenses	\$	<u>464,092</u>

STONE COUNTY

OTHER INFORMATION

STONE COUNTY

(This page left blank intentionally.)

STONE COUNTY
Schedule of Surety Bonds for County Officials
For the Year Ended September 30, 2013
UNAUDITED

Name	Position	Company	Bond
Joseph Davenport	Supervisor District 1	RLI Surety	\$100,000
Daniel Harris	Supervisor District 2	RLI Surety	\$100,000
Lance Pearson	Supervisor District 3	RLI Surety	\$100,000
Scott Strickland	Supervisor District 4	RLI Surety	\$100,000
Dale Bond	Supervisor District 5	RLI Surety	\$100,000
Gerald Bond	County Administrator	RLI Surety	\$100,000
Gerald Bond	Chancery Clerk	RLI Surety	\$100,000
Sheila Lott	Purchase Clerk	RLI Surety	\$75,000
Brian Ross	Assistant Purchase Clerk	RLI Surety	\$50,000
Glenda Cobb	Receiving Clerk	RLI Surety	\$75,000
Rickey McDonald	Assistant Receiving Clerk	RLI Surety	\$50,000
Linda Sumrall	Assistant Receiving Clerk	RLI Surety	\$50,000
Lynn Stokes	Assistant Receiving Clerk	RLI Surety	\$50,000
Wanda Berry	Assistant Receiving Clerk	RLI Surety	\$50,000
Carolyn Massey	Assistant Receiving Clerk	RLI Surety	\$50,000
Julie W. Davis	Assistant Receiving Clerk	RLI Surety	\$50,000
Micholyn Harris Ramsey	Inventory Control Clerk	RLI Surety	\$75,000
Robert Victor Clark	Road Manager	RLI Surety	\$50,000
Everett Compston	Constable	RLI Surety	\$50,000
Louis Simmons	Constable	RLI Surety	\$50,000
Kenny Hatten	Circuit Clerk	RLI Surety	\$100,000
Wanda Fairley	Deputy Circuit Clerk	RLI Surety	\$50,000
Treba E. Davis	Deputy Circuit Clerk	RLI Surety	\$50,000
Mike Farmer	Sheriff	RLI Surety	\$100,000
Jeffery O'Neal	Justice Court Judge	RLI Surety	\$50,000
Ricky Farmer	Justice Court Judge	RLI Surety	\$50,000
Glenda Joyce Cobb	Justice Court Clerk	RLI Surety	\$50,000
Sonya Warren	Deputy Justice Court Clerk	RLI Surety	\$50,000
Aletha Parker	Deputy Justice Court Clerk	RLI Surety	\$50,000
Debra Patrick	Deputy Justice Court Clerk	RLI Surety	\$50,000
Samantha Mann	Deputy Justice Court Clerk	RLI Surety	\$50,000
Charles Williams Jr.	Tax Collector-Assessor	RLI Surety	\$100,000
Lola Marie Bond	Deputy Tax Collector	RLI Surety	\$50,000
Violet Georgian	Deputy Tax Collector	RLI Surety	\$50,000
Diane Reed	Deputy Tax Collector	RLI Surety	\$50,000
Charlotte Taylor	Deputy Tax Collector	RLI Surety	\$50,000
Samuel T. Smith	Deputy Tax Assessor	RLI Surety	\$10,000
Kenneth Shelton	Deputy Tax Assessor	RLI Surety	\$10,000

STONE COUNTY

(This page left blank intentionally.)

STONE COUNTY

SPECIAL REPORTS

STONE COUNTY

(This page left blank intentionally.)



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Supervisors
Stone County, Mississippi

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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Stone County, Mississippi, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 24, 2015. Our report includes a qualified opinion on the governmental activities, business-type activities, and Correctional Facility Fund because the County did not record a liability or current-year expense for other postemployment benefits as required by accounting principles generally accepted in the United States of America. Our report also includes a qualified opinion on the governmental activities and aggregate remaining fund information because the County accounted for and reported its risk-financing activity in an agency fund and did not maintain and preserve adequate subsidiary records documenting the risk-financing transactions.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Stone County, Mississippi's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a 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 as 2013-001, 2013-002, 2013-003, 2013-004, 2013-005, 2013-006, 2013-007, 2013-008, 2013-009, 2013-010, and 2013-014 to be material weaknesses.

A significant deficiency is a deficiency, or a 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 as 2013-011, 2013-012, 2013-013, and 2013-015 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stone County, Mississippi's financial statements are 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001, 2013-002, 2013-006 and 2013-009.

We also noted certain matters which we have reported to the management of Stone County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated July 24, 2015, included within this document.

Stone County's Responses to Findings

Stone County's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. Stone County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.



J. SCOTT SPEIGHTS, CPA
Director, County Audit Section

July 24, 2015



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Members of the Board of Supervisors
Stone County, Mississippi

Report on Compliance for Each Major Federal Program

We have audited Stone County, Mississippi's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013. Stone County, Mississippi's major federal programs are 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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Stone County, Mississippi'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 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 Stone County, Mississippi'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 on Stone County, Mississippi's compliance.

Basis for Adverse Opinion on Schools and Roads – Grants to States

As described in the accompanying Schedule of Findings and Questioned Costs, Stone County, Mississippi did not comply with requirements applicable to Schools and Roads – Grants to States regarding Activities Allowed or Unallowed and Allowable Costs/Cost Principles as detailed in 2013-016; Period of Availability of Federal Funds as detailed in 2013-017; Special Tests and Provisions – Public Comment Period as detailed in 2013-018; and Special Tests and Provisions – Certification as detailed in 2013-019. Compliance with such requirements is necessary, in our opinion, for Stone County, Mississippi to comply with the requirements applicable to that program.

Adverse Opinion on Schools and Roads – Grants to States

In our opinion, because of the significance of the effects of the noncompliance described in the Basis for Adverse Opinion paragraph, Stone County, Mississippi, did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Schools and Roads – Grants to States for the year ended September 30, 2013.

Basis for Adverse Opinion on the JAG Program Cluster

As described in the accompanying Schedule of Findings and Questioned Costs, Stone County, Mississippi did not comply with requirements applicable to the JAG Program Cluster regarding Allowable Costs/Cost Principles as detailed in 2013-020 and 2013-022; Procurement and Suspension and Debarment as detailed in 2013-022; Reporting as detailed in 2013-021 and 2013-023; and Special Tests and Provisions as detailed in 2013-024. Compliance with such requirements is necessary, in our opinion, for Stone County, Mississippi to comply with the requirements applicable to that program.

Adverse Opinion on the JAG Program Cluster

In our opinion, because of the significance of the effects of the noncompliance described in the Basis for Adverse Opinion paragraph, Stone County, Mississippi, did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the JAG Program Cluster for the year ended September 30, 2013.

Basis for Adverse Opinion on Alcohol Open Container Requirements

As described in the accompanying Schedule of Findings and Questioned Costs, Stone County, Mississippi did not comply with requirements applicable to Alcohol Open Container Requirements regarding Reporting as detailed in 2013-025. Compliance with such requirements is necessary, in our opinion, for Stone County, Mississippi to comply with the requirements applicable to that program.

Adverse Opinion on Alcohol Open Container Requirements

In our opinion, because of the significance of the effects of the noncompliance described in the Basis for Adverse Opinion paragraph, Stone County, Mississippi, did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Alcohol Open Container Requirements for the year ended September 30, 2013.

Stone County's responses to the noncompliance findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. Stone County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of Stone County, Mississippi, 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 Stone County, Mississippi'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 OMB Circular A-133, 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 the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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 were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-016, 2013-017, 2013-018, 2013-019, 2013-020, 2013-021, 2013-022, 2013-023, 2013-024, and 2013-025 to be material weaknesses.

Stone County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. Stone County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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 OMB Circular A-133. Accordingly this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.



J. SCOTT SPEIGHTS, CPA
Director, County Audit Section

July 24, 2015

STONE COUNTY

(This page left blank intentionally.)



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM,
INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES
(REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))**

Members of the Board of Supervisors
Stone County, Mississippi

We have examined Stone County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2013. The Board of Supervisors of Stone County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Stone County, Mississippi, has established centralized purchasing for all funds of the County and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our findings and recommendations and your responses are disclosed on the subsequent pages:

Purchase Clerk.

1. Proper purchasing documentation should be issued.

Finding

Section 31-7-103, Miss. Code Ann. (1972), requires a requisition, purchase order, and receiving report for all purchases, except for those items enumerated by the Office of the State Auditor under the authority of Section 31-7-113, Miss. Code Ann. (1972), and except for purchases of not more than \$1,000. Purchasing documents did not exist for an emergency purchase approved during the year. Failure to properly issue purchase orders could result in the County paying more for items or paying for items which were not ordered.

Recommendation

The Purchase Clerk should ensure that purchase transaction documents are present, completed with sufficient detail, and in the proper time sequence.

Purchase Clerk's Response

The finding was corrected immediately upon discovery by the Comptroller, Accounts Payable Clerk, and Purchase Clerk.

Inventory Control Clerk.

2. Inventory Control Clerk should maintain an inventory control system.

Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. An effective system of internal control over capital assets requires that certain data elements be captured in capital asset records for all capital assets. Required data elements include descriptions of assets, costs, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information. The presence of these data elements in capital asset records help identify and distinguish County assets from one another, thereby safeguarding County assets from loss or misappropriation. The information is also very important to the financial reporting process. As reported in the prior four years' audit reports, deficiencies were noted in the capital asset records:

Governmental Activities:

- a. Land was understated by \$3,000 due to the County's failure to record land purchased in the prior fiscal year.
- b. Construction in progress for the Old Wire Road Trail project was understated by \$145,940.
- c. Infrastructure was understated by \$847,733 due to completed construction not being added by the County.
- d. Buildings were understated by \$4,749,054 due to completed construction for prior years not being added by the County and some items being recorded in the County's records at incorrect amounts.
- e. The Improvements Other Than Buildings class was understated by \$180,160 due to one asset not being added and another being included that did not meet the capitalization threshold.
- f. Mobile equipment was overstated by a net amount of \$93,185 due to the following numerous errors: an asset with the incorrect number was not removed from inventory, resulting in an overstatement in the amount of \$19,519, four assets were transferred from leased property that had not been paid off, resulting in an overstatement in the amount of \$96,787, an asset that had been leased and was paid off in the prior year was added to the wrong class by the County, resulting in an overstatement in the amount of \$6,879, a pickup truck that had been donated to a volunteer fire department and subsequently returned to the County was not added back to inventory by the County, resulting in an understatement in the amount of \$30,000.

- g. Furniture and equipment was understated by \$28,584 due to the County transferring a leased asset whose lease had been paid off to the wrong class and failure to record a Channel Track System purchased in fiscal year 2011.
- h. Leased Assets was understated by a net amount of \$22,928 for the following: the County's transfer to mobile equipment of four assets with a total cost of \$96,787 that had not been paid off, the County not including the trade-in allowance of \$7,300 on the prior-year purchase of a Durapatcher in the cost of the acquired asset and the duplication of three Motorola consoles purchased in fiscal year 2011 in the amount of \$81,159.
- i. Accumulated depreciation was overstated by \$9,360 due to the use of the incorrect salvage value and asset life for a bridge, overstated by \$3,095 due to the erroneous change in the life of a paint sprayer when it was transferred from leased property, and overstated by \$6,738 due to use of the incorrect life on a backhoe/loader purchased in the current year.

Business-Type Activities:

- a. Construction in Progress for the booking area addition to the Regional Correctional Facility was understated by \$5,864.
- b. The buildings asset class was understated by a net amount of \$55,220 due to the following: a pants storage room addition to the regional correctional facility which was self-constructed at a cost of \$40,629 was not capitalized by the County, the fitness center addition to the regional correctional facility which was self-constructed at a cost of \$20,172 was not capitalized by the County and the uncompleted booking area addition was recorded by the County at a cost of \$5,581.
- c. Mobile equipment was overstated by \$28,615 due to County's transfer of an asset from leased property that had not been paid off.
- d. Furniture and equipment was understated by \$5,296. An asset was not included in the capitalized assets because the County did not include freight costs when recording the asset.
- e. Leased property was understated by \$28,615 due to the transfer of the above-mentioned asset to mobile equipment before it was paid off.
- f. Accumulated depreciation was understated by \$65,126 due to the above errors.

These errors in the capital asset records were caused by failure to implement internal control procedures to ensure that all items are recorded, valued properly, and classified properly in the County's capital asset records. Failure to maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Inventory Control Clerk should implement appropriate control procedures to ensure that all items are recorded, valued properly and classified properly in the County's capital asset records. The information listed in the County's capital asset records should be reconciled by all involved department heads through an annual inventory to ensure records are accurate and complete.

Inventory Control Clerk's Response

All findings have been corrected on the County's financial statements. The findings will be corrected on the County's books by the Inventory Control Clerk.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Stone County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2013.

The accompanying schedules of (1) Purchases Not Made from the Lowest Bidder, (2) Emergency Purchases and (3) Purchases Made Noncompetitively from a Sole Source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

Stone County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended for use in evaluating the central purchasing system and inventory control system of Stone County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.



J. SCOTT SPEIGHTS, CPA
Director, County Audit Section

July 24, 2015

STONE COUNTY

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2013

<u>Date</u>	<u>Item Purchased</u>	<u>Bid Accepted</u>	<u>Vendor</u>	<u>Lowest Bid</u>	<u>Reason for Accepting Other Than the Lowest Bid</u>
01/07/2013	Annual bid for hot mix asphalt in place	\$ 75.00	Land Shaper, Inc.	\$ 73.85	Negative past experience with low bidder

STONE COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2013

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
09/20/2013	Bridge repair	\$ 36,480	Russell Ryals Construction, LLC	Repairs to Cobb Road Bridge (safety hazard)

STONE COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2013

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
07/02/2013	Paperlink imaging program and license \$ for Tax Assessor/Collector office	9,000	Delta Computer Systems, Inc.

STONE COUNTY

(This page left blank intentionally.)



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Stone County, Mississippi

In planning and performing our audit of the financial statements of Stone County, Mississippi for the year ended September 30, 2013, we considered Stone County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Stone County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated July 24, 2015, on the financial statements of Stone County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified immaterial instances of noncompliance with state laws and regulations and certain areas that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Board of Supervisors.

1. All County funds should be placed in approved depositories.

Finding

Section 27-105-305, Miss. Code Ann. (1972), states that the County funds and all other funds in the hands of the County treasurer shall be deposited in the qualified depository as designated annually or biannually by the Board of Supervisors. On January 7, 2013, the Stone County Board of Supervisors selected The Bank of Wiggins as the County depository for 2013 and 2014 and ordered that all County funds be placed on deposit with The Bank of Wiggins. As reported in the prior year's audit report, as of September 30, 2013, the County, through its various offices, had a total of \$49,345.00 on deposit with The First. The failure to deposit all County funds in the approved County depository could result in the loss of public monies and places the County in violation of state statute.

Recommendation

All County accounts with The First Bank should be closed and the funds should be transferred to The Bank of Wiggins immediately.

Board of Supervisors' Response

This finding has been corrected.

2. All interfund transfers should be approved by the Board of Supervisors.

Finding

Section 19-3-27, Miss. Code Ann. (1972), requires a complete and correct record to be maintained for all proceedings of the Board of Supervisors. As reported in the prior two years' audit reports, interfund transfers were made without board orders spread on the minutes. The failure to obtain board approval for interfund transfers could result in erroneous amounts being reported and increases the possibility of the loss or misuse of public funds.

Recommendation

The Board of Supervisors should spread complete orders on the minutes relative to interfund transfers.

Board of Supervisors' Response

The Comptroller will comply.

3. Credit card charges were not properly documented for authorization.

Finding

Section 19-3-68, Miss. Code Ann. (1972), specifies the requirements governing the use of a County credit card for travel. The Chancery Clerk or Purchase Clerk shall maintain complete records of all credit card numbers and all receipts and other documentation relating to the use of such credit cards. The supervisors and County employees shall furnish receipts for the use of such credit cards each month to the Chancery Clerk or Purchase Clerk, who shall submit a written report monthly to the Board of Supervisors. The report shall include an itemized list of all expenditures and use of the credit card for the month, and such expenditures may be allowed for payment by the County in the same manner as other items in the claims docket. As reported in the prior year's audit report, travel charges to the credit card were not documented with receipts and no written reports itemizing expenditures were submitted to the Board. Failure to enforce these requirements could result in the misuse of the credit card for unauthorized or unallowed expenditures and misappropriation of public funds.

Recommendation

The Purchase Clerk should ensure that receipts are submitted for charges and a monthly report itemizing the expenditures and use of the credit card is submitted to the Board of Supervisors.

Board of Supervisors' Response

Finding has been corrected, and reports are submitted to the Board each month for approval.

4. The receipt and expenditure of 911 service charges should be accounted for in a separate fund.

Finding

Section 19-5-313, Miss. Code Ann. (1972) authorizes the Board of Supervisors to levy an emergency telephone service charge to defray the costs of providing 911 service to the County. As reported in the prior year's audit report, the receipt and expenditure of the County's 911 service charges are accounted for in the General Fund of the County. The failure of the County to account for the receipt and disbursement of 911 service charges in a separate fund could result in these fees being used for purposes other than those authorized by law, namely the provision of 911 services to the citizens of the County and limited other purposes in the case of a surplus.

Recommendation

The Board of Supervisors should immediately establish a separate fund to account for the receipt and expenditure of all 911 service charges.

Board of Supervisors' Response

The Board has decided to leave 911-related receipts and expenditures as part of the County's General Fund. The Comptroller will review this decision with the Board and Board Attorney.

5. Required forms should be completed for re-employment after retirement.

Finding

Section 25-11-127, Miss. Code Ann. (1972), requires counties hiring PERS service retirees to file PERS Form 4B "Certification/Acknowledgement of Re-employment of Retiree" with the PERS office within five days from the date of employment of the retiree. As reported in the prior year's audit report, the County failed to file Form 4B during fiscal year 2013 for eight of its employed PERS retirees. Failure to file caused the County to be in non-compliance with legal requirements.

Recommendation

The County should file the required form with PERS as soon as possible.

Board of Supervisors' Response

The Comptroller will comply.

6. Public hearing was not held for FY 2013 budget.

Finding

Section 27-39-203, Miss. Code Ann. (1972), requires the governing body of all taxing entities hold a public hearing at which time the budget and tax levies for the upcoming fiscal year will be considered. The public hearing shall be advertised for and open to the public. The County did not hold or advertise for a public hearing regarding the fiscal year 2013 budget. The failure to hold a public hearing caused noncompliance with state law.

Recommendation

The Board of Supervisors should ensure that public hearings relating to the budget and/or tax levy are held and advertised for each year.

Board of Supervisors' Response

The Comptroller misinterpreted information provided by the Office of the State Auditor, Technical Assistance Division, and did not schedule a public hearing based on this information.

The failure to schedule a public hearing occurred on only for the Fiscal 2013 budget year, not for earlier or subsequent years.

7. Expenditures should not exceed the final budgeted amounts.

Finding

Section 19-11-17, Miss. Code Ann. (1972), prohibits expenditures, the incurrence of liabilities, or the issuance of warrants, in excess of the budget estimates as finally determined by the board of supervisors, or as revised under the provisions of Chapter 11, Title 19. The general fund expenditures exceeded the final budgeted amounts by \$721 for general government, \$14,558 for public safety, and \$205 for health and welfare for a total of \$15,484. The approval of expenditures in excess of the budgeted amounts is in direct violation of state statute and has resulted in the misappropriation of public funds.

Recommendation

The Board of Supervisors should take steps to ensure that expenditures are not incurred in excess of budgeted amounts.

Board of Supervisors' Response

The Comptroller will comply.

8. The Board of Supervisors has no statutory authority to pay for the utilities of volunteer fire departments.

Finding

Section 83-1-39(3)(d), Miss. Code Ann. (1972), requires the operating expenses of the fire departments to be paid from the proceeds of their fire protection contract with the County. During our audit, it was noted that the Board of Supervisors directly paid the utility bills incurred by the volunteer fire departments. This resulted in the misappropriation of public funds and noncompliance with state law.

Recommendation

The Board of Supervisors should immediately cease payment of the volunteer fire departments' utility bills. The operating expenses of the volunteer fire departments should be paid from the proceeds of their fire protection contract with the County.

Board of Supervisors' Response

The Comptroller will review Rural Fire Department policies and procedures with the Board, County Administrator, Board Attorney, and Rural Fire Coordinator. The finding will be corrected at the earliest opportunity.

9. Stone County Should Set All Individual Passwords to Expire on a Periodic Basis.

Finding

A review of Stone County's security settings revealed that users' passwords were not set to expire. All passwords should be set to expire in accordance with a policy to be determined by Stone County.

Recommendation

We recommend that a policy be implemented to ensure all passwords expire on a regular basis. In addition, Stone County should conduct access reviews for information assets on a periodic basis (at least annually). Documentation of these reviews should be signed by the person conducting them and retained for review by auditors.

Board of Supervisors' Response

Stone County does not employ a dedicated Information Technology Officer. The County outsources our IT needs to a third-party vendor. The Comptroller will work with our IT vendor to ensure all passwords expire on a regular basis, and conduct access reviews on a periodic basis.

10. Stone County Should Strengthen Passwords.

Finding

During our review, we noted that Stone County is using some parameters associated with password strength that meet industry standard best practices. However, the County has some password parameters that do not meet these standards, thereby creating unnecessary risk for Stone County information assets.

Recommendation

We recommend that Stone County improve its password strength by changing password parameters to comply with password management best practices and industry standards.

Board of Supervisors' Response

Stone County does not employ a dedicated Information Technology Officer.

The County outsources our IT needs to a third-party vendor.

The Comptroller will request our IT vendor to provide the County with password parameters associated with password strength that meet industry standard and best practices. The County will comply.

11. Stone County Should Improve Its Server Room Environment Management.

Finding

Although Stone County's computer room is located in a locked room that has backup power, the room is not environmentally protected (e.g., fire and smoke protection, backup air conditioner, etc.). In addition, no log is kept of entrance into the room and periodic access reviews are not performed to determine that only authorized personnel have access to this room.

Recommendation

We recommend that Stone County consider the purchase of equipment that can monitor environmental conditions that might affect computerized equipment such as fire, smoke, heat and humidity. This equipment should have the capability of notifying the proper personnel when monitored environmental conditions vary outside of preset ranges. Periodic access reviews of personnel authorized to access the computer room should be performed. Documentation of such reviews should be retained for use by auditors at a later date.

Board of Supervisors' Response

Stone County does not employ a dedicated Information Technology Officer. The County outsources our IT needs to a third-party vendor. Management will review the OSA's recommendation and make changes as considered appropriate.

12. Stone County Should Install Network Banners on Its Internal Network.

Finding

During our review of Stone County, we noted that the system did not display appropriate network banners on its internal network. Network banners are electronic messages that provide notice of legal rights to users of computer networks. Bannering assists in the prosecution of computer-related incidents by helping prevent certain defenses made by the perpetrator.

Recommendation

We recommend that Stone County implement appropriate network banners on its internal network.

Board of Supervisors' Response

Stone County does not employ a dedicated Information Technology Officer. The County outsources our IT needs to a third-party vendor. The Comptroller will work with our IT vendor to install network banners on its internal network.

13. Stone County needs to replace obsolete hardware and software.

Finding

Stone County is running operating systems as well as applications on some of its personal computers (PCs) that might not be supported by vendors. Due to lack of such support, these systems could become vulnerable to hackers and malware such as viruses.

Recommendation

We recommend that Stone County develop a plan to replace the operating systems, applications, and hardware where necessary that is associated with lack of support from vendors as soon as possible. Computers that originally came loaded with operating systems or applications that are no longer supported by vendors will have hardware that most likely cannot run the newest operating systems or applications, thereby requiring replacement of hardware, operating systems and applications in many cases. Due to the possible large number of PCs that need replacing, this could involve a sizable expenditure by the County. Due to the cost and effort involved in such a project, this project should be begun as soon as possible.

Board of Supervisors' Response

Stone County does not employ a dedicated Information Technology Officer. The County outsources our IT needs to a third party vendor. The County is replacing outdated operating systems, applications, and hardware on a regular basis. Departments regularly include expenditures in their budgets for upgrades. The County plans to budget for a new AS 400 in fiscal year 2016.

Chancery Clerk.

14. Chancery Clerk should cease charging unauthorized land redemption fees.

Finding

Section 27-43-3, Miss. Code Ann. (1972), provides for the fees for services related to giving notices related to the expiration of time to redeem property sold for taxes. The Sheriff's fee for the first notice is set at \$4.00, and the fee for issuing the first sheriff's notice is set at \$2.00. It was noted during our audit, that the Chancery Clerk is charging \$8.00 per release for the Sheriff's fees on the first notice. The Chancery Clerk is also charging \$4.00 per release for issuing the first Sheriff's notice. The collection of unauthorized land redemption fees is in direct violation of state law. The failure to collect the proper fee for issuing Sheriff's notices resulted in the misappropriation of public funds.

Recommendation

The Chancery Clerk should immediately cease charging unauthorized land redemption fees.

Chancery Clerk's Response

Stone County's computer software is purchased from Delta Computer Systems, Inc. and is utilized by numerous Chancery Clerk offices across the State of Mississippi. By default, the software automatically calculated both the Sheriff's fee and the issuance fee twice for all redemptions. In many cases, this results in the correct fee amount being charged because the property that is being redeemed is owned by both a husband and wife, thus necessitating two Sheriff's fees and two issuance fees per redemption. However, the software has proved very inflexible in overriding this default setting as to a redemption where there is only one owner, thus resulting in two fees being charged instead of only one. Within the last year, Delta Computer Systems, Inc. has made significant improvements to the software, which gives the user much more control in entering the appropriate fee amount relative to the number of owners involved with each property. This will aid greatly in assuring that the correct fees are calculated. My office staff will make every effort in the future to see that the fee amounts that are charged in each redemption are correct and in accordance with the requirements of the statute.

Circuit Clerk.

15. Over the cap fees should be settled timely.

Finding

Miss. Code Section 9-1-43(1), limits the compensation of the Circuit Clerk to \$90,000 after making deductions for employee salaries and related salary expenses and expenses allowed as deductions by Schedule C of the Internal Revenue Code. All fees received in excess of this amount, less any allowable expenses, are to be deposited by the Circuit Clerk into the County's General Fund on or before April 15th for the preceding calendar year. The Circuit Clerk exceeded the salary cap by \$10,830 for the 2013 calendar year and failed to settle the funds to the County's General Fund by April 15, 2014. Failure to properly settle the amount in excess over the salary cap of \$90,000 by April 15th of each year could result in the loss of public funds.

Recommendation

The Circuit Clerk should ensure that future excess fees are settled to the County's General Fund by April 15th of each year.

Circuit Clerk's Response

The above was settled even though a little late.

Auditor's Note

Amount was repaid by Circuit Clerk on June 4, 2014, receipt number 1943.

Stone County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.



J. SCOTT SPEIGHTS, CPA
Director, County Audit Section

July 24, 2015

STONE COUNTY

(This page left blank intentionally.)

STONE COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STONE COUNTY

(This page left blank intentionally.)

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | a. Governmental Activities | Qualified |
| | b. Business-type Activities | Qualified |
| | c. General Fund | Unmodified |
| | d. Road and Bridge Fund | Unmodified |
| | e. Countywide Bridge and Culvert Fund | Unmodified |
| | f. Correctional Facility Fund | Qualified |
| | g. Aggregate remaining fund information | Qualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified? | Yes |
| 3. | Noncompliance material to the financial statements noted? | Yes |

Federal Awards:

- | | | |
|----|---|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiency identified? | None Reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | |
| | a. CFDA 10.665 - Schools and Roads – Grants to States | Adverse |
| | b. CFDA 16.738, 16.803, and 16.804 - JAG Program Cluster | Adverse |
| | c. CFDA 20.607 - Alcohol Open Container Requirements | Adverse |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section __.510(a) of OMB Circular A-133? | Yes |
| 7. | Identification of major programs: | |
| | a. CFDA 10.665 - Schools and Roads – Grants to States | |
| | b. CFDA 16.738, 16.803, and 16.804 - JAG Program Cluster | |
| | c. CFDA 20.607 - Alcohol Open Container Requirements | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Section 2: Financial Statement Findings

Board of Supervisors.

Material Weakness
Material Noncompliance

2013-001. County signed warrants without sufficient money.

Finding

Section 19-13-43, Miss. Code Ann. (1972), prohibits the signing of warrants or the delivery of warrants until there is sufficient money in the fund upon which it is drawn to pay the same. As reported in the prior six years' audit reports, warrants were issued on funds which did not have sufficient money to pay the warrants. As of September 30, 2013, the following funds had negative cash balances:

- a. General Fund - \$1,517,746
- b. Stone County Regional Correctional Facility Revenue Fund - \$354,291

Failure to have sufficient cash balances in County funds prior to the signing and delivery of warrants on these funds resulted in the use of the cash balances of other funds for purposes other than the intended purpose. These types of transactions could result in the Board of Supervisors being held personally liable for such amounts.

Recommendation

The Board of Supervisors should ensure that no warrants are signed or delivered until there is sufficient money in the fund upon which it is drawn to pay the same, as required by law.

Material Weakness
Material Noncompliance

2013-002. Tax Anticipation Note Not Repaid by Required Date

Finding

Section 19-9-27, Miss. Code Ann. (1972), authorizes the Board of Supervisors to borrow money in anticipation of taxes for the purpose of defraying expenses of the County and to issue negotiable notes of the County, therefore, to mature not later than April 1 of the year succeeding the year in which they are issued. For the payment of such loan, the Board of Supervisors shall either pledge the levy of a special tax each year sufficient to pay the amount borrowed for use that year, with interest, or shall pledge that such notes shall be paid out of the first money collected from taxes for the year in which they are issued. As reported in the prior three years' audit reports, the Board of Supervisors issued a \$500,000 tax anticipation note in November 2011 with a maturity date of April 2012 to be repaid out of the first money collected from taxes. However, \$305,150 of these notes was not repaid by the April maturity date as required by law. The Board of Supervisors renewed this amount and extended the maturity date until May 2013. The note was paid off on February 1, 2013; however there is no authority for the Board of Supervisors to extend the maturity date of a tax anticipation loan beyond the April 1 maturity date established by law. Failure to repay tax anticipation notes authorized under this code section by the April 1 maturity date resulted in the County actually issuing long-term debt that is not authorized for these purposes.

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Recommendation

The Board of Supervisors should ensure that all tax anticipation notes issued under the authority of this code section are repaid out of the first money collected from taxes for the year in which they are issued in order to comply with the April 1 maturity date established by law.

Material Weakness

2013-003. Reconciliations of the County's general depository accounts should be properly prepared.

Finding

An effective system of internal control should ensure that bank reconciliations are properly prepared. As reported in the prior year's audit report, discrepancies were noted in several transactions between the amount recorded in the general ledger and the actual amount per the bank statement, with some transactions being recorded in the general ledger for incorrect amounts and some transactions not being recorded at all in the general ledger. The failure to record transactions in the general ledger for the correct amounts resulted in a misstatement of the bank balance in the general ledger and could result in the loss of public funds.

Recommendation

Every effort should be made to ensure that transactions are recorded in the general ledger for the correct amounts and that all transactions are recorded in the general ledger. Furthermore, when errors in the general ledger are discovered during the reconciliation process, the corrections should be made to the balance per the general ledger, not the balance per the bank statement on the reconciliation. Journal entries should also be recorded to correct all errors noted during the reconciliation.

Material Weakness

2013-004. Cash collections and general ledger maintenance functions are not adequately segregated.

Finding

An effective system of internal controls should include an adequate segregation of duties. As reported in the prior five year's audit reports, cash collections and general ledger maintenance functions are not adequately segregated for effective internal control. The comptroller receipts funds, prepares all deposits, reconciles the County's bank statements and posts the receipts to the general ledger. Failure to have an adequate segregation of duties could result in the loss of public funds.

Recommendation

The Board of Supervisors should implement effective internal control policies that allow for the proper segregation of duties for the cash collection and general ledger maintenance functions.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

Material Weakness

- 2013-005. Liability for post-employment benefits not recorded/note disclosures for post-employment benefits not reported.

Finding

Stone County purchases health insurance coverage from a commercial insurance company and offers health insurance benefit coverage to active employees and retirees through the County's health insurance plan. The County is also self-insured in respect to supplemental health insurance and, until August 31, 2013, was also self-insured with respect to dental insurance. Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the County has a postemployment healthcare benefit reportable under GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* as a single employer defined health benefit care plan. GASB Statement No. 45 requires the County to report, on an accrual basis, the liability associated with other postemployment benefits. As reported in the three prior years' audit reports, the County does not issue a publicly available financial report for its health insurance plan. Also, as reported in the prior three years' audit reports, the County has not recorded a liability for other postemployment benefits nor has the County reported the note disclosures which are required by accounting principles generally accepted in the United States of America. The failure to properly follow generally accepted accounting principles resulted in a qualified opinion on the Governmental Activities, Business-type Activities and Correctional Facility Fund.

Recommendation

The Board of Supervisors should have an actuarial valuation performed annually so that a liability for other postemployment benefits can be recorded and the appropriate note disclosures can be made in accordance with accounting principles generally accepted in the United States of America.

Material Weakness

Material Noncompliance

- 2013-006. The County issued unauthorized debt.

Finding

Section 31-7-13(e), Miss. Code Ann. (1972), authorizes the Board of Supervisors to obtain lease-purchase financing for the acquisition of certain equipment. As reported in the prior year's audit report, on December 5, 2011, the Board of Supervisors approved financing up to \$34,000 for the purchase of a 2011 Ford F-150 for use at the Stone County Regional Correctional Facility through a lease-purchase agreement with Southern National Bank. On December 6, 2011, the County issued warrant number 180012 in the amount of \$34,784.00 to Butch Oustalet Ford for the purchase of said vehicle. At the subsequent Board meeting on December 19, 2011, the Board approved financing up to \$38,764.93 for the purchase of the same vehicle plus specified equipment to be added to the vehicle through a lease-purchase agreement with The First. The Board had no authority to enter into the second lease-purchase agreement as they had already approved financing the vehicle purchase with Southern National Bank and the vehicle had been purchased. The issuance of debt not authorized by state statute resulted in the illegal diversion of public funds and could result in the violation of the bonded debt agreement.

Recommendation

The Board of Supervisors should immediately repay the outstanding balance of the unauthorized and unsecured loan from The First. The Board should also implement internal control procedures to ensure that unauthorized debt is not issued by the County.

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Material Weakness

2013-007. The County should establish controls to ensure the Schedule of Expenditures of Federal Awards is accurately prepared.

Finding

An effective system of internal control over federal grants should include adequate subsidiary records documenting all revenues and expenditures relating to each federal grant received. As reported in the prior year audit report, the County did not report all federal grant expenditures on the Schedule of Expenditures of Federal Awards for the year ended September 30, 2013. The County also included expenditures which were not expenditures of federal funds on the Schedule. As a result, several corrections were proposed by the auditor and made by the County to the Schedule of Expenditures of Federal Awards. The failure to properly complete the Schedule of Expenditures of Federal Awards increases the possibility of reporting incorrect amounts of federal expenditures as well as the possibility of excluding a federal grant on the Schedule of Expenditures of Federal Awards.

Recommendation

The County should properly maintain adequate subsidiary records documenting all revenues and expenditures relating to each federal grant received.

Material Weakness

2013-008. Processing of payroll and other payroll duties not adequately segregated.

Finding

An effective system of internal control should include an adequate segregation of duties. As reported in the prior five years' audit reports, the maintenance of the general ledger, processing of payroll and other payroll duties are not adequately segregated for effective internal control. Based upon our test work, we noted the following internal control weaknesses in the payroll function:

- a. The comptroller, who maintains the general ledger, also prepares the payroll.
- b. Time cards/attendance records are not checked for computations of payroll period hours.
- c. Unclaimed W2's are returned directly to the Comptroller.

Failure to have an adequate segregation of duties could result in the loss of public funds.

Recommendation

The Board of Supervisors should implement a system of internal control that will ensure that proper segregation of duties exists with respect to control of the general ledger, the processing of payroll and other payroll duties.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

Material Weakness
Material Noncompliance

2013-009. The Board of Supervisors should establish controls to ensure that risk-financing activities are properly accounted for and reported.

Finding

An effective system of internal control over the recording of transactions and financial reporting should include proper documentation for all transactions, approval of claims by the Board of Supervisors prior to payment, County control over the disbursement of County funds, and accounting records that allow the preparation of financial statements in accordance with standards generally accepted in the United States of America. The County engages in a risk-financing activity in the provision of health and dental insurance benefits to full-time employees and elected officials. Relative to this activity, the following conditions were noted during our audit:

- a. The risk-financing activity is accounted for and reported as part of the County's Payroll Clearing Fund, an agency fund. The activity does not meet the criteria for agency funds as defined in paragraph 73 of *Statement No. 34 of the Governmental Accounting Standards Board*.
- b. The note disclosures required by *Statement No. 10 of the Governmental Accounting Standards Board* for risk-financing activities have not been reported in the County's financial statements.
- c. Supporting documentation was not retained by the County for all transactions relative to the risk-financing activity. Some of the source documentation of claims paid to providers, in the form of emails from the County's third-party administrator (TPA), was deleted after the TPA had been reimbursed for paid claims.
- d. Due to the comingling of the risk-financing activities with the County's payroll transactions, the financial results of the risk-financing activities are not readily discernible from the County's accounting records. However, in spite of the scope limitation imposed by the disposition of County records as described above, a cash deficit of approximately \$190,000 existed as of September 30, 2013 relative to the risk-financing activities.
- e. In violation of Section 19-13-31(1), Miss. Code Ann. (1972), regarding the disposition of claims filed, the Board of Supervisors does not approve the claims submitted by medical provider priors to payment of the claims by the third-party administrator. These claims are presented as part of the payroll docket approved by the Board of Supervisors after the fact as allowed by Section 19-13-31(2), Miss. Code Ann. (1972).
- f. In violation of Section 25-15-101, Miss. Code Ann. (1972), the County has no policy in effect to cover benefits provided in excess of the self-insurance plan.
- g. As of September 1, 2013, the County's third-party administrator has been provided with blank signed warrants with which to pay claims submitted by providers. No evidence exists to document the reconciliation of claims submitted for approval by the County's Comptroller with the warrants issued by the administrator.

The comingling of the risk-financing activities with the County's payroll transactions is due to a resolution passed by the Board of Supervisors on August 2, 2011. The remaining conditions are caused by the lack of effective controls over the County's risk-financing activities. The failure to adhere to accounting principles generally accepted in the United States resulted in a qualified opinion on the governmental activities and aggregate remaining fund information. Additionally, the comingling of risk-financing activities with payroll transactions resulted in the inability to properly account for risk-financing activities.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

The lack of sufficient appropriate audit evidence could have resulted the auditor's disclaimer of opinion on the governmental activities and aggregate remaining fund information. However, we were able to overcome this obstacle by obtaining the missing documentation from the third-party administrator, and finally, the lack of a policy to cover benefits provided in excess of the self-insurance plan could leave the County exposed to potential losses.

Recommendation

The Board of Supervisors should take steps to ensure the County's risk-financing activities are accounted for and reported in conformity with accounting principles generally accepted in the United States. The Board should also establish controls to ensure (1) that the risk-financing activities are accounted for in such a manner that the financial results of these activities can be readily determined from the County's accounting records; (2) that all supporting documentation of the risk-financing activities is maintained; (3) that claims for medical services provided are approved by the Board of Supervisors prior to payment; and (4) that the County maintains control over the disbursement of County funds. The County should also obtain coverage for benefits provided in excess of the self-insurance plan.

Material Weakness

2013-010. Stone County has inadequate controls over billing and receipt of revenues for housing prisoners.

Finding

An effective system of internal control over the recording of transactions for housing prisoners should include timely billing of invoices, the proper classification of revenues and expenditures/expenses, and adequate segregation of duties. As reported in the prior two years' audit reports, we noted the following deficiencies in the recording of transactions for housing prisoners:

- a. Some invoices for housing prisoners were not billed in a timely manner.
- b. The Comptroller records revenues and expenditures/expenses based on the trust statements that are received; however, these transactions are not reconciled to the records maintained by the administrative assistant at the correctional facility.
- c. The correctional facility administrative assistant prepares the billing for various agencies and receives some of the funds.

Failure to bill invoices in a timely manner and reconcile recorded transactions could result in the incorrect classification of revenues and expenditures/expenses in the County's accounting records, as well as the misappropriation or loss of public funds. The lack of adequate segregation of duties for the billing and cash receipt functions could also result in the loss of public funds.

Recommendation

The Board of Supervisors should implement a system of internal control that will ensure that all transactions are recorded and correctly classified in the County's accounting records; that all invoices for housing prisoners are billed in a timely manner; and that there is an adequate segregation of duties at the correctional facility.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

Significant Deficiency

2013-011. Stone County should establish and test a disaster recovery process.

Finding

During our review of the IS controls of Stone County (“the County”), we noted the County has not established a disaster recovery process. As a result, Stone County cannot fully ensure that the County’s information systems can be restored in a timely manner. Disaster recovery involves defining and documenting plans to help sustain and recover critical information technology resources, information systems, and associated business functions. *Control Objectives for Information and Related Technology* (CobiT, Section DS4), as well as recognized industry best practices, require a written disaster recovery plan be developed and tested regularly to provide orderly recovery of vital functions in the event of a hardware or environmental disaster. Failure to maintain an adequate recovery plan could impede the County’s ability to regain computer operations in the event of a disaster.

There are a number of steps that an organization can take to prevent or minimize the damage to automated operations that may occur from unexpected events. One example is routinely backing up data files and programs and periodically restoring these files and programs as part of a formal, documented disaster recovery exercise. Such actions maintain the organization’s ability to restore data files, which may be impossible to re-create.

Stone County is currently using an automated system to perform daily back-ups of the AS400, but is not restoring such files as part of a formal, documented disaster recovery exercise. Without proper assurance that back-up files can be utilized to adequately restore all critical data in a timely manner in the event of a disaster scenario, material damage could be realized by the County and its processes should a catastrophic event occur involving the County’s building and servers. Risk and probabilities of material loss escalates in relationship to the longer an exposure goes unmitigated.

Recommendation

We recommend that Stone County develop, implement, and test a plan to insure that critical data and applications are recoverable in case of a disaster scenario. We further recommend that Stone County develop and implement a disaster recovery plan documenting procedures to be followed during an emergency. Once the plan is completed, it should be subjected to proper testing, and employees should be made aware of their responsibilities in the event of a disaster. The plan should be updated when needed in order to maintain readiness for a disaster scenario.

Significant Deficiency

2013-012. The County Should Create a Rotation of Backups Offsite

Finding

The county is currently using an automated system to perform daily back-ups of the AS400. Upon clarification of the backup processes, it was determined that the tapes should be taken offsite, as no other copy of county data was being stored at an off-site location. Without proper off-site storage of back-up files and applications, material damage could be realized by the county and its processes should a catastrophic event occur involving the county’s building and servers. Risk and probabilities of material loss escalates in relationship to the longer an exposure goes unmitigated.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

Recommendation

We recommend that the county implement a plan to insure that all back-up files are taken offsite on a regular basis and stored in a safe and secure location. This process should be documented in the county's Disaster Recovery Plan. With close proximity of a bank it would be convenient and safe to place the backup tapes in the night deposit drop and then place them in a safe deposit box the next day. It is further recommended that tapes be kept at the bank for several days (e.g., two weeks), in case of a disaster situation that required recovery and problems in reading recovery tapes were experienced.

Significant Deficiency

2013-013. Stone County should implement a formal information security policy.

Finding

Stone County has not adopted a formal information security policy or enterprise security plan. The lack of a formal information security policy can lead to a breakdown of basic security practices in the areas of application security, LAN/WAN security, management of the security application and internet protocol.

Recommendation

A robust set of information technology policies should cover at least the following areas:

- a. Acceptable Use
- b. Portable Computing
- c. Change Management
- d. Encryption
- e. Security Incident Response
- f. Risk Management
- g. Backup and Recovery
- h. Business Continuity/Disaster Recovery

While full compliance with all facets of such a policy may be an economic challenge for Stone County, beginning steps to become compliant with a policy covering areas such as those listed above are necessary. We recommend that Stone County create a plan of compliance with industry standards to ensure progress towards a robust documented information security plan. This policy should be reviewed and approved by the County Board of Supervisors. In addition, employees that utilize technology should review and accept such policies before access to computer resources is granted to employees. Proof of approval by management and acceptance by employees should be retained for review by auditors.

Inventory Control Clerk

Material Weakness

2013-014. Inventory Control Clerk should maintain an inventory control system.

Finding

An effective system of internal control over capital assets requires that certain data elements be captured in capital asset records for all capital assets. Required data elements include descriptions of assets, costs, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information. The presence of these data elements in capital asset records help identify and distinguish County assets from one another, thereby safeguarding County assets from loss or misappropriation. The information is also

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

very important to the financial reporting process. As reported in the prior four years' audit reports, deficiencies were noted in the capital asset records:

Governmental Activities:

- a. Land was understated by \$3,000 due to the County's failure to record land purchased in the prior fiscal year.
- b. Construction in progress for the Old Wire Road Trail project was understated by \$145,940.
- c. Infrastructure was understated by \$847,733 due to completed construction not being added by the County.
- d. Buildings were understated by \$4,749,054 due to completed construction for prior years not being added by the County and some items being recorded in the County's records at incorrect amounts.
- e. The Improvements Other Than Buildings class was understated by \$180,160 due to one asset not being added and another being included that did not meet the capitalization threshold.
- f. Mobile equipment was overstated by a net amount of \$93,185 due to the following numerous errors: an asset with the incorrect number was not removed from inventory, resulting in an overstatement in the amount of \$19,519, four assets were transferred from leased property that had not been paid off, resulting in an overstatement in the amount of \$96,787, an asset that had been leased and was paid off in the prior year was added to the wrong class by the County, resulting in an overstatement in the amount of \$6,879, a pickup truck that had been donated to a volunteer fire department and subsequently returned to the County was not added back to inventory by the County, resulting in an understatement in the amount of \$30,000.
- g. Furniture and equipment was understated by \$28,584 due to the County transferring a leased asset whose lease had been paid off to the wrong class and failure to record a Channel Track System purchased in fiscal year 2011.
- h. Leased Assets was understated by a net amount of \$22,928 for the following: the County's transfer to mobile equipment of four assets with a total cost of \$96,787 that had not been paid off, the County not including the trade-in allowance of \$7,300 on the prior-year purchase of a Durapatcher in the cost of the acquired asset and the duplication of three Motorola consoles purchased in fiscal year 2011 in the amount of \$81,159.
- i. Accumulated depreciation was overstated by \$9,360 due to the use of the incorrect salvage value and asset life for a bridge, overstated by \$3,095 due to the erroneous change in the life of a paint sprayer when it was transferred from leased property, and overstated by \$6,738 due to use of the incorrect life on a backhoe/loader purchased in the current year.

Business-Type Activities:

- a. Construction in Progress for the booking area addition to the Regional Correctional Facility was understated by \$5,864.
- b. The buildings asset class was understated by a net amount of \$55,220 due to the following: a pants storage room addition to the regional correctional facility which was self-constructed at a cost of \$40,629 was not capitalized by the County, the fitness center addition to the regional correctional facility which was self-constructed at a cost of \$20,172 was not capitalized by the County and the uncompleted booking area addition was recorded by the County at a cost of \$5,581.
- c. Mobile equipment was overstated by \$28,615 due to County's transfer of an asset from leased property that had not been paid off.
- d. Furniture and equipment was understated by \$5,296. An asset was not included in the capitalized assets because the County did not include freight costs when recording the asset.
- e. Leased property was understated by \$28,615 due to the transfer of the above-mentioned asset to mobile equipment before it was paid off.
- f. Accumulated depreciation was understated by \$65,126 due to the above errors.

These errors in the capital asset records were caused by failure to implement internal control procedures to ensure that all items are recorded, valued properly, and classified properly in the County's capital asset records. Failure to maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Recommendation

The Inventory Control Clerk should implement appropriate control procedures to ensure that all items are recorded, valued properly and classified properly in the County’s capital asset records. The information listed in the County’s capital asset records should be reconciled by all involved department heads through an annual inventory to ensure records are accurate and complete.

Circuit Clerk.

Significant Deficiency.

2013-015. Bank statements were not reconciled to cash journals.

Finding

An effective system of internal control should include maintaining cash journals and reconciling the bank statements to the cash journals. As reported in the prior two years’ audit reports, the bank statements were not reconciled to the cash journals. Failure to reconcile the bank statements to the cash journals could result in the loss of public funds.

Recommendation

The Circuit Clerk should ensure that the bank statements are reconciled to the cash journals.

Section 3: Federal Award Findings and Questioned Costs

2013-016. The County should establish controls to ensure Title III funds are expended only for authorized purposes.

Finding

Program: CFDA 10.665 Schools and Roads – Grants to States
Award number: N/A
U.S. Department of Agriculture, Forest Service
Passed through the Mississippi Office of the State Treasurer

Material Weakness
Material Noncompliance

Compliance Requirements: Activities Allowed or Unallowed
Allowable Costs/Cost Principles

According to the 2013 OMB Circular A-133 Compliance Supplement and U.S. Code, Title 16, Section 7142, these funds shall only be used by a participating County to (1) carry out activities under the Firewise Communities program to provide to homeowners in fire-sensitive ecosystems education on, and assistance with, implementing techniques in home siting, home construction, and home landscaping that can increase the protection of people and property from wildfires; (2) reimburse the participating County for search and rescue and other emergency services, including firefighting, that are (a) performed on Federal land after the 45-day public comment period, and (b) paid for by the participating County; and (3) develop community wildfire protection plans in coordination with the U.S. Secretary of Agriculture. During our audit testing procedures, we noted that the County comingled the Title III monies with monies from other sources in the County’s Rural Fire Protection Fund. These monies were then expended for normal operating expenses of the County’s rural fire protection operations and retirement of debt related to the purchase of firefighting

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

equipment. No effective internal controls were found to be in place with respect to the activities allowed or unallowed and allowable costs/cost principles compliance requirements. Failure to expend funds for allowable purposes resulted in these expenditures being reported as questioned costs and could result in the County being required to repay these funds to the federal government.

Questioned Costs: \$26,752

Recommendation

The Board of Supervisors should notify the U.S. Department of Agriculture – Forest Service that the County did not satisfy the requirements under activities allowed or unallowed and allowable costs/cost principles. The County should seek resolution from the Forest Service regarding the repayment of misused Title III funds. In addition, the Board of Supervisors should implement adequate internal controls to ensure that the County satisfies the compliance requirements for activities allowed or unallowed and allowable costs/cost principles with respect to Title III funds received.

2013-017. The County should establish controls to ensure that Title III approved projects are initiated by the termination date.

Finding

Program: CFDA 10.665 Schools and Roads – Grants to States
Award number: N/A
U.S. Department of Agriculture, Forest Service
Passed through the Mississippi Office of the State Treasurer

Material Weakness
Material Noncompliance

Compliance Requirement: Period of Availability of Federal Funds

The 2013 OMB Circular A-133 Compliance Supplement and U.S. Code Title 16, Section 7144, specify that the authority to initiate Title III projects terminated on September 30, 2013 and that any County funds not obligated by September 30, 2013, shall be returned to the Treasury of the United States. As of September 30, 2013, the County had not initiated an approved project for the expenditure of Title III funds. This noncompliance resulted from the County's lack of adequate internal controls over the period of availability of federal funds compliance requirement. Failure to initiate approved Title III projects by the termination date could result in the unobligated funds being returned to the federal government.

Recommendation

The Board of Supervisors should notify the U.S. Department of Agriculture – Forest Service that the County did not satisfy the requirements under the period of availability of federal funds. The County should seek resolution from the Forest Service regarding the repayment of unobligated Title III funds. In addition, the Board of Supervisors should implement internal controls to ensure that the County initiates all approved projects for any future Title III funds by the termination date, thereby satisfying the period of availability compliance requirement for federal programs.

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

2013-018. The County should establish controls to ensure the public comment period requirement is complied with before expending Title III funds.

Finding

Program: CFDA No. 10.665, Schools and Roads – Grants to States
Award number: N/A
U.S. Department of Agriculture, Forest Service; passed through the Mississippi Office of the State Treasurer

Material Weakness
Material Noncompliance

Compliance Requirement: Special Tests and Provisions – Public Comment Period

The 2013 OMB Circular A-133 Compliance Supplement and the U.S. Code, Title 16, Section 7142(b), specifies that a participating County can expend Title III funds only after a 45-day public comment period, at the beginning of which the participating County shall (1) publish in a publication of local record a proposal that describes the proposed use of the County funds, and (2) submit the proposal to any resource advisory committee established under 16 USC 7125 for the participating County. Based on our audit testing procedures, the County did not provide the required public notice prior to expending Title III funds nor was the 45-day comment period observed before any Title III funds were expended. This noncompliance resulted from the County's lack of adequate internal controls over the public comment period federal requirement. Failure to provide the required public notice and 45-day comment period before any Title III funds were expended could result in the funds being used for unallowable purposes and repayment of the misspent funds to the federal government.

Recommendation

The Board of Supervisors should implement internal controls to ensure that the County complies with the public comment requirement before any Title III funds are expended.

2013-019. The County should establish controls to ensure that an annual certification is submitted to the Secretary of Agriculture.

Finding

Program: CFDA No. 10.665, Schools and Roads – Grants to States
Award number: N/A
U.S. Department of Agriculture, Forest Service; passed through the Mississippi Office of the State Treasurer

Material Weakness
Material Noncompliance

Compliance Requirement: Special Tests and Provisions – Certification

The 2013 OMB Circular A-133 Compliance Supplement and U.S. Code, Title 16, Section 7143, specify that not later than February 1 of the year after the year in which any Title III County funds were expended by a participating County, the appropriate official of the participating County is required to submit to the U.S. Secretary of Agriculture a certification that the County funds expended in the applicable year have been used for the uses authorized, including a description of the amounts expended and the uses for which the amounts were expended.

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

During our audit testing procedures, we noted that the County did not submit the required certification to the U.S. Secretary of Agriculture. This noncompliance resulted from the County's lack of internal controls over the certification requirement. Failure to submit the required annual certification to the U.S. Secretary of Agriculture could result in the funds being used for unauthorized purposes.

Recommendation

The Board of Supervisors should implement the necessary internal controls to ensure that the County submits the required annual certification to the U.S. Secretary of Agriculture by February 1 of the year following the year in which Title III funds were expended.

2013-020. The County should establish controls to ensure claims are not allowed by the Board of Supervisors when no such claim has been filed with the Clerk of Board.

Finding

Program: CFDA No. 16.738, Edward Byrne Memorial Justice Assistance Grant Program
Award number: 11LB1661
U.S. Department of Justice; passed through the Mississippi Department of Public Safety

Material Weakness
Material Noncompliance

OMB Circular A-87, Attachment A, paragraph C.1c, states that to be allowable under Federal awards, costs must be authorized or not prohibited under State or local laws or regulations. Section 19-13-25, Miss. Code Ann. (1972), states that no claim not first filed with the clerk of the Board of Supervisors shall be allowed. A warrant was issued and charged to the federal program for which no claim had been filed with the clerk of the Board of Supervisors. The noncompliance was caused by the County's lack of adequate internal controls over the allowance of claims and the allowable costs/cost principles compliance requirement. The issuance of the warrant without filing a claim places the County in direct violation of state statute and could result in federal funds being repaid to the federal government.

Material Weakness

Compliance Requirement: Allowable Costs/Cost Principles

Questioned Costs: \$324

Recommendation

The Board of Supervisors should implement internal controls to ensure that no warrants are issued without the filing of a valid claim.

2013-021. The Board of Supervisors should establish controls to ensure that all reports are filed timely and that the required supporting documentation is submitted with all reports for federal award programs.

Finding

Program: CFDA No. 16.738, Edward Byrne Memorial Justice Assistance Grant Program
Award number: 11LB1661
U.S. Department of Justice; passed through the Mississippi Department of Public Safety

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Material Weakness

Compliance Requirement: Reporting

The terms of the award agreement require the County to submit monthly reimbursement reporting worksheets, along with supporting documentation, no later than ten working days after the end of each month. The monthly reimbursement reporting worksheets were submitted as many as 101 working days after the required submission date. Additionally, supporting documentation was not submitted with the June, 2013, financial report. The noncompliance is due to the County's lack of adequate internal controls over the reporting compliance requirement. Failure to timely file required reports could result in a demand for repayment of the federal funds. The failure to submit the required supporting documentation resulted in the deobligation of federal funds awarded in the amount of \$1,745.

Questioned Costs: This finding did not result in any questioned costs.

Recommendation

The Board of Supervisors should implement internal controls to ensure that all required reports are submitted on time with the required supporting documentation.

2013-022.

The Board of Supervisors should establish controls to ensure applicable ARRA-specific terms and conditions are included in all ARRA-funded contracts.

Finding

Program: CFDA No. 16.804 Recovery Act - Edward Byrne Memorial Justice Assistance Grant
Program / Grants to Units of Local Government
Award number: 2010-SB-B9-0047
U.S. Department of Justice

Material Weakness

Material Noncompliance

Compliance Requirements: Allowable Costs/Cost Principles
Procurement and Suspension and Debarment

State procurement policies and procedures stipulate that contracts for purchases funded by the American Recovery and Reinvestment Act of 2009 (ARRA) must include all applicable ARRA terms and conditions. As part of this process, all vendors awarded state procurement contracts were requested to sign and agree to the ARRA terms and conditions. OMB Circular A-87, Attachment A, paragraph C.1.(c) defines an allowable cost as one that is authorized or not prohibited under State or local laws or regulations. U.S. Code, Title 28, Section 66.36(h) allows grantees to use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in Section 66.36. The County used ARRA funds to purchase goods on state contract from vendors that did not sign and agree to the ARRA terms and conditions, a violation of state procurement policies and procedures. The noncompliance is due to the County's lack of adequate internal controls over procurement procedures. The purchase of goods with ARRA funds under contracts that do not include ARRA-specific terms and conditions could result in the issuance of a demand from the U.S. Department of Justice for repayment of the funds. The failure to comply with ARRA terms and conditions could also affect the County's ability to obtain future federal awards.

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Questioned Costs: \$29,400.

Recommendation

The Board of Supervisors should implement internal controls to ensure that all required terms and conditions are included in contracts for the purchase of goods and services made with Federal funds.

2013-023.

The Board of Supervisors should establish controls to ensure all required reports are completed and submitted timely.

Finding

Program: CFDA No. 16.804 Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program / Grants to Units of Local Government
Award number: 2010-SB-B9-0047
U.S. Department of Justice

Material Weakness

Compliance Requirement: Reporting

Section 1512(c) of the American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients of ARRA funds to submit a quarterly report to the awarding Federal agency no later than 10 days after the end of each calendar quarter. Each report must contain (1) the total amount of recovery funds received from that agency; (2) the amount of recovery funds received that were expended or obligated to projects or activities; (3) a detailed list of all projects or activities for which recovery funds were expended or obligated; and (4) detailed information on any subcontracts or subawards awarded by the recipient. Item 22. (b) of the County's award stipulates the Section 1512 reports are due no later than ten calendar days after each calendar quarter. The following fields were not completed in the County's Section 1512 report for the quarter ended December 31, 2010: (1) Total Number of Payments to Vendors less than \$25,000/award; (2) Total Amount of Payments to Vendors Less than \$25,000/award; and (3) Vendor tab for Payments over \$25,000. Additionally, the County's report for the quarter ended September 30, 2010, was submitted on October 12, 2010, two days after the due date; and the County's report for the quarter ended December 31, 2010, was submitted on January 14, 2011, four days after the due date. The noncompliance is due to the County's lack of adequate internal controls over the reporting compliance requirement. Due to the failure to properly complete and timely submit the ARRA Section 1512 reports, the County may be precluded from drawing down funds under any Office of Justice Programs award, and/or be deemed ineligible for future discretionary Office of Justice Programs awards.

Questioned Costs: This finding did not result in any questioned costs.

Recommendation

The Board of Supervisors should establish controls to ensure all required reports are properly completed and are submitted to the awarding agency on or before the specified due date.

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

2013-024. The Board of Supervisors should establish controls to ensure compliance with all the requirements of all federal awards received.

Finding

Programs: CFDA 16.803 Recovery Act - Edward Byrne Memorial Justice Assistance Grant
Program / Grants to States and Territories
Award number: 09ZI1661
U.S. Department of Justice, passed through the Mississippi Department
of Public Safety

CFDA 16.804 Recovery Act - Edward Byrne Memorial Justice Assistance Grant
Program / Grants to Units of Local Government
Award number: 2010-SB-B9-0047
U.S. Department of Justice

Material Weakness

Compliance Requirement: Special Tests and Provisions - Whistleblower

Section 1553(e) of the American Recovery and Reinvestment Act of 2009 (ARRA) requires any employer receiving ARRA funds to post notice of the whistleblower rights and remedies provided by ARRA. During the performance of audit procedures, we noted that the County did not display the ARRA whistleblower rights and remedies. The noncompliance was caused by the County's lack of adequate internal controls over compliance with the requirements of federal award programs. The failure to comply with all award requirements could result in a demand for repayment of the funds and could affect the County's ability to receive federal funds in the future.

Questioned Costs: This finding did not result in any questioned costs.

Recommendation

The Board of Supervisors should implement internal controls to ensure the County's compliance with all federal award terms.

2013-025. The County should establish controls to ensure that information reported to pass-through agencies is accurate and that close-out forms are filed by the deadline.

Finding

Program: CFDA 20.607 Alcohol Open Container Requirements
Award number: 13-TA-166-1
U.S. Department of Transportation, passed through the Mississippi
Department of Public Safety

Material Weakness

Material Noncompliance

Compliance Requirement: Reporting

Under the grant agreement, the deputies must issue a minimum of 56 DUI citations each quarter, and the close-out form should be submitted by November 15th. During the testing of the County's compliance with the grant requirements, it was noted that a total of 136 DUI citations were reported on the quarterly reports submitted for the audit year; however, the Justice Court Clerk's report shows the issuance of only

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

81 DUI citations during the same time frame. In addition, the close-out form for the grant was prepared on November 20, 2013, five days after the submission deadline of November 15th. Because the number of DUI citations reported quarterly do not correspond to the Justice Court Clerk's report and the close-out form was not submitted by the stated deadline, the County is not in compliance with the reporting compliance requirement of the grant. The noncompliance could result in the County being required to repay the federal government some or all of the awarded funds and could also cause the County to not receive federal awards in the future.

Questioned Costs: This finding did not result in any questioned costs.

Recommendation

The Board of Supervisors should implement internal controls to ensure the County's compliance with the terms of federal awards received.

STONE COUNTY

AUDITEE'S CORRECTIVE ACTION PLAN
AND
AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

STONE COUNTY

(This page left blank intentionally.)

**STONE COUNTY
BOARD OF SUPERVISORS**

P. O. Drawer 7 • Wiggins, Mississippi 39577
Phone: (601)928-5266 • Fax: (601)928-6464

CORRECTIVE ACTION PLAN

January 20, 2015

Office of the State Auditor
501 N. West Street, Suite 801
Jackson, Mississippi 39201

Gentlemen:

Stone County respectfully submits the following corrective action plan for the year ended September 30, 2013.

The findings from the Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section 1: Summary of Auditor's Results, does not include findings and is not addressed.

SECTION 2: FINANCIAL STATEMENT FINDINGS

2013-001. Corrective Action Planned:

The shortfall in the Stone County Regional Correctional Facility Revenue Fund was a "timing" issue. The reimbursement was not received prior to September 30, 2013. The shortfall in the General Fund has been an issue for several years. For fiscal year 2014, the Board added 3.00 mills for the General Fund. For fiscal year 2015, the Board added an additional 1.00 mill for the General Fund. Through a combination of the millage increases, tax anticipation notes, and budgets cuts, the General Fund deficit was reduced to \$910,983.78 at the end of fiscal year 2014. The Board's plan at the beginning of fiscal year 2014 was to have the General Fund "in the black" at the end of fiscal year 2017.

Anticipated Completion Date: September 30, 2017

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-002. Corrective Action Planned:

This finding has been corrected.

Anticipated Completion Date: N/A

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

- 2013-003. Corrective Action Planned:

The Comptroller will comply.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266
- 2013-004. Corrective Action Planned:

Management will attempt to comply, but is limited by the availability of funds to hire additional staff.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266
- 2013-005. Corrective Action Planned:

Due to the significant costs associated with hiring an actuary, management has chosen to accept this finding with no corrective action at this time.

Anticipated Completion Date: None

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266
- 2013-006. Corrective Action Planned:

This finding was corrected immediately upon discovery by the Comptroller, Accounts Payable Clerk, and Purchase Clerk.

Anticipated Completion Date: N/A

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266
- 2013-007. Corrective Action Planned:

The Comptroller will comply. The county is limited by the availability of funds to hire a dedicated Grant Administrator.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-008. Corrective Action Planned:

Management will attempt to comply, but is limited by the availability of funds to hire additional staff.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:

Brian Ross (601) 928-5266

2013-009. Corrective Action Planned:

Beginning with the February, 2015, payrolls, all medical gap health insurance deductions will be placed in Fund 684, Medical Gap Clearing. Payments made to health providers will be made from Fund 684. Beginning with the February 2, 2015, Board meeting, all health providers' medical gap claims are presented to the Board of Supervisors for approval prior to being released to the providers. Beginning in January, 2015, all medical gap information is printed and retained in the Comptroller's office for future reference. Previously, medical gap information was retained in electronic mail files. Loss of electronic mail files in September, 2014, revealed to management the need for printed files to be retained.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:

Brian Ross (601) 928-5266

2013-010. Corrective Action Planned:

The Regional Correctional Facility Administrative Assistance and the Comptroller will comply.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:

Brian Ross (601) 928-5266

2013-011. Corrective Action Planned:

Stone County does not employ a dedicated Information Technology Officer. The county outsources out IT needs to a third party vendor. The Comptroller will work with our IT vendor to develop and test a disaster recovery plan.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:

Brian Ross (601) 928-5266

2013-012. Corrective Action Planned:

We maintain two full sets of backup tapes, labeled Monday to Friday. One set is kept at the courthouse, and is rotated with a set that is kept in the vault at the Tax Collector's Office.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-013. Corrective Action Planned:

Stone County does not employ a dedicated Information Technology Officer. The county outsources our IT needs to a third party vendor. Management will review the OSA's recommendation and, with the assistance of the IT vendor, adopt information technology policies as considered appropriate.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-014. Corrective Action Planned:

All findings have been corrected on the county's financial statements. The findings will be corrected on the county's books by the Inventory Control Clerk, with the assistance of Office of the State Auditor personnel.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-015. Corrective Action Planned:

The Circuit Clerk will work on.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Kenny Hatten, Circuit Clerk (601) 928-5246

SECTION 3: FEDERAL AWARD FINDINGS

2013-016. Corrective Action Planned:

The Comptroller was unaware of requirements related to Title III funds. The Comptroller, with the help of the Board Attorney, will seek resolution with the U. S. Department of Agriculture.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-017. Corrective Action Planned:

Management will comply.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-018. Corrective Action Planned:

Management will comply.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-019. Corrective Action Planned:

The Comptroller will comply.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-020. Corrective Action Planned:

The claim in question was paid from a quote rather than an invoice. This was an error on the part of the Purchasing and Accounts Payable departments, with no intentions of deception. No further errors of this type have occurred.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-021. Corrective Action Planned:

This grant was obtained and administered by the Stone County Sheriff Department. Stone County does not employ a dedicated Grant Administrator. Management will utilize all resources to comply with federal award terms in the future.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-022. Corrective Action Planned:

This grant was obtained and administered by the Stone County Sheriff Department. Stone County does not employ a dedicated Grant Administrator. Management will utilize all resources to comply with federal award terms in the future.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-023. Corrective Action Planned:

This grant was obtained and administered by the Stone County Sheriff Department. Stone County does not employ a dedicated Grant Administrator. Management will utilize all resources to comply with federal award terms in the future.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-024. Corrective Action Planned:

This grant was obtained and administered by the Stone County Sheriff Department. Stone County does not employ a dedicated Grant Administrator. Management will utilize all resources to comply with federal award terms in the future.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

2013-025. Corrective Action Planned:

This grant was obtained and administered by the Stone County Sheriff Department DUI officers. Stone County does not employ a dedicated Grant Administrator. Management will utilize all resources to comply with federal award terms in the future.

Anticipated Completion Date: September 30, 2015

Name of Contact Person Responsible for Corrective Action:
Brian Ross (601) 928-5266

STONE COUNTY

BOARD OF SUPERVISORS

P. O. DRAWER 7 • WIGGINS, MISSISSIPPI 39577
PHONE: (601) 928-5266 • FAX: (601) 928-6464



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS For the Year Ended September 30, 2013

Office of the State Auditor
Post Office Box 956
Jackson, Mississippi 39205

Gentlemen:

The Stone County Board of Supervisors respectfully submits the following summary schedule of prior audit findings relative to federal awards.

DEPARTMENT OF AGRICULTURE

2012 – Finding No. 1: Schools and Roads – Grants to States, CFDA No. 10.665.

Condition: During our audit testing procedures, we noted that the county comingled the Title III monies with monies from other sources in the county's Rural Fire Protection Fund. These monies were then expended for normal operating expenses of the county's rural fire protection operations and retirement of debt for the purchase of firefighting equipment. Therefore, the county did not expend the Title III funds received for authorized purposes, as required by law.

Recommendation: The Board of Supervisors should notify the U.S. Department of Agriculture – Forest Service that the county did not satisfy the requirements under activities allowed or unallowed and allowable costs/cost principles. The county should seek resolution from the Forest Service regarding the repayment of misused Title III funds. In addition, the Board of Supervisors should implement adequate internal controls to ensure that the county satisfies the compliance requirements for activities allowed or unallowed and allowable costs/cost principles with respect to Title III funds received.

Current Status: The 2012 findings were received after the end of the 2013 fiscal year, making the initiation of corrective action impossible in fiscal year 2013. To date, the Forest Service has not been contacted. The County Comptroller will work with the Board Attorney to seek resolution.

2012 – Finding No. 2: Schools and Roads – Grants to States, CFDA No. 10.665.

Joseph Davenport
District 1

Daniel Harris
District 2

Lance D. Pearson
District 3
Vice-President

Scott Strickland
District 4
President

Dale T. Bond
District 5

Gerald W. Bond
Chancery Clerk

D. Scott Gibson
Attorney

Condition: As of September 30, 2012, the county had not initiated an approved project for the expenditure of Title III funds.

Recommendation: The Board of Supervisors should implement internal controls to ensure that the County initiates all approved projects for Title III funds by the termination date, thereby satisfying the period of availability compliance requirement for federal programs.

Current Status: The 2012 findings were received after the end of the 2013 fiscal year, making the initiation of corrective action impossible in fiscal year 2013. To date, no additional actions have been taken.

2012 – Finding No. 3: Schools and Roads – Grants to States, CFDA No. 10.665.

Condition: Based on our audit testing procedures, the County did not provide the required public notice prior to using Title III funds nor was the 45-day comment period observed before any Title III funds were expended.

Recommendation: The Board of Supervisors should implement internal controls to ensure that the county complies with the public comment period requirement when using Title III funds, as required.

Current Status: The 2012 findings were received after the end of the 2013 fiscal year, making the initiation of corrective action impossible in fiscal year 2013. However, corrective action has since been taken.

2012 – Finding No. 4: Schools and Roads – Grants to States, CFDA No. 10.665.

Condition: The County did not submit an annual certification to the Secretary of Agriculture, outlining the Title III funds that had been expended during the year, as well as the description of the amounts expended and their uses, and the amount of unobligated funds as of September 30th.

Recommendation: The Board of Supervisors should implement internal controls to ensure that the county submits an annual certification to the Secretary of Agriculture by February 1st of the year following the year in which Title III expenditures were made and include the amount of Title III funds that were not obligated by September 30th of the previous year, as required.

Office of the State Auditor

Page 3

Current Status: The 2012 findings were received after the end of the 2013 fiscal year, making the initiation of corrective action impossible in fiscal year 2013. However, corrective action has since been taken.

Sincerely,

A handwritten signature in cursive script, appearing to read "Scott Strickland".

Scott Strickland
President, Stone County Board of Supervisors
(601) 928-5266