



COTTON COUNTY

County Audit

For the fiscal year ended June 30, 2020

Cindy Byrd, CPA
State Auditor & Inspector

**COTTON COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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Cindy Byrd, CPA | State Auditor & Inspector

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September 13, 2021

TO THE CITIZENS OF
COTTON COUNTY, OKLAHOMA

Transmitted herewith is the audit of Cotton County, Oklahoma for the fiscal year ended June 30, 2020. The audit was conducted in accordance with 19 O.S. § 171.

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

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

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

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



**COTTON COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Board of County Commissioners

District 1 – Mike Woods
District 2 – Ricky Vardell
District 3 – Greg Powell

County Assessor

Virginia Brasier

County Clerk

Nikki Vardell

County Sheriff

Tim King

County Treasurer

Tammy Morris

Court Clerk

Janet Shively

District Attorney

Fred Smith

**COTTON COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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FINANCIAL SECTION

Independent Auditor's Report

TO THE OFFICERS OF
COTTON COUNTY, OKLAHOMA

Report on the Financial Statement

We have audited the combined total—all county funds on the accompanying regulatory basis Statement of Receipts, Disbursements, and Changes in Cash Balances of Cotton County, Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statement, which collectively comprise the County's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Cotton County as of June 30, 2020, or changes in financial position for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash balances for all county funds of Cotton County, for the year ended June 30, 2020, in accordance with the basis of accounting described in Note 1.

Other Matters

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2021, on our consideration of Cotton County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County’s internal control over financial reporting or on compliance. That report is an integral part

of an audit performed in accordance with *Government Auditing Standards* in considering Cotton County's internal control over financial reporting and compliance.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

August 31, 2021

REGULATORY BASIS FINANCIAL STATEMENT

COTTON COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Beginning Cash Balances July 1, 2019	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2020
Combing Information:						
County General	\$ 441,760	\$ 1,335,742	\$ 4,633	\$ -	\$ 1,365,805	\$ 416,330
County Highway Unrestricted	1,653,102	1,874,631	4,000	-	2,000,249	1,531,484
Health	137,643	102,651	-	-	73,742	166,552
Sheriff Forfeiture	41	-	-	-	-	41
Sheriff - DARE	419	100	-	-	-	519
Computer Assisted Mass Appraisals	2,216	-	-	-	-	2,216
Assessor Revolving Fee	11,806	1,313	-	-	-	13,119
Sheriff Reserves	20	-	-	-	-	20
Sheriff Service Fee	47,724	88,408	13,419	-	100,400	49,151
Sheriff Board of Prisoners	24,260	2,875	-	13,419	13,716	-
Resale Property	114,885	81,029	-	-	62,933	132,981
Treasurer Mortgage Certification Fee	1,883	1,105	-	-	250	2,738
County Clerk Lien Fee	13,553	3,050	-	-	6,879	9,724
County Donations	27,799	630,883	1,650	4,934	626,340	29,058
Free Fair Premium	3,474	2,250	-	-	2,961	2,763
Sheriff Commissary	3,313	21,332	-	-	18,214	6,431
Free Fair Board	10,143	11,855	-	-	13,901	8,097
County Clerk Records Management	18,959	10,105	-	-	7,339	21,725
911 Phone Fees	441,351	92,365	-	-	173,060	360,656
Reward Fund	1,743	-	-	-	-	1,743
Emergency Management Grant	44,822	22,500	1,650	5,400	27,641	35,931
Court Fund Payroll	-	99,005	-	-	90,351	8,654
Local Emergency Planning Commission	2,000	1,000	-	-	-	3,000
County Bridge and Road Improvement	937,504	261,578	-	4,000	218,198	976,884
Indigent Care	38,129	7,200	-	-	7,789	37,540
Combined Total - All County Funds	\$ 3,978,549	\$ 4,650,977	\$ 25,352	\$ 27,753	\$ 4,809,768	\$ 3,817,357

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

**COTTON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Cotton County is a subdivision of the State of Oklahoma created by the Oklahoma Constitution and regulated by Oklahoma Statutes.

The accompanying financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds under the control of the primary government. The general fund is the county's general operating fund, accounting for all financial resources except those required to be accounted for in another fund, where its use is restricted for a specified purpose. Other funds established by statute and under the control of the primary government are also presented.

The County Treasurer collects, and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including emergency medical districts, libraries, school districts, and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement; those funds play no part in the County's operations. Any trust or agency funds maintained by the County are not included in this presentation.

B. Fund Accounting

The County uses funds to report on receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are descriptions of the county funds included as combining information within the financial statement:

County General – accounts for the general operations of the government.

County Highway Unrestricted – accounts for state, local, and miscellaneous receipts, and disbursements for the purpose of constructing and maintaining county roads and bridges.

Health – accounts for monies collected on behalf of the county health department from ad valorem taxes and state and local revenues.

Sheriff Forfeiture – accounts for funds collected from forfeitures to be used for the intervention and prevention of narcotic use.

Sheriff - DARE – accounts for grant monies and donations received by the Sheriff's office for the D.A.R.E program and disbursements are used for drug prevention, education, and awareness.

**COTTON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Computer Assisted Mass Appraisals – accounts for the collection and disbursements of monies by the Assessor as restricted by state statute for the visual inspection program.

Assessor Revolving Fee – accounts for the collection of fees for copies and disbursement of funds as restricted by state statute.

Sheriff Reserves – accounts for the collection and disbursement of donations to the Sheriff's reserve deputies.

Sheriff Service Fee – accounts for the collection of fees for the services provided by the County Sheriff's office and disbursed for the operations of the Sheriff's office.

Sheriff Board of Prisoners – accounts for the monies received for boarding and feeding of prisoners and disbursements for the purpose of maintaining the jail.

Resale Property – accounts for the collection of interest, penalties, and fees on delinquent taxes and the disposition of same as restricted by statute.

Treasurer Mortgage Certification Fee – accounts for the collection of fees by the Treasurer for mortgage tax certificates and the disbursement of funds as restricted by statute.

County Clerk Lien Fee – accounts for lien collections and disbursements as restricted by statute.

County Donations – accounts for donations received for special projects not funded by the County.

Free Fair Premium – accounts for monies collected from donations for the payment of premiums to livestock and 4H project participants.

Sheriff Commissary – accounts for the collection from the sale of items to inmates and disbursement of funds as restricted by state statute.

Free Fair Board – accounts for the collection of donations and rentals of the Expo building and the disbursements associated with maintaining the Expo building.

County Clerk Records Management – accounts for fees collected for instruments filed in Registrar of Deeds as restricted by statute for preservation of records.

911 Phone Fees – accounts for monies received from the telephone companies for operation of the emergency 911 services.

Reward Fund – accounts for monies received from donations and expended for information that leads to the capture of those illegally dumping trash.

**COTTON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Emergency Management Grant – accounts for state and federal grant funds received and disbursed as restricted by the grant agreements.

Court Fund Payroll – accounts for monies received from the Court Clerk’s fund for the disbursement of payroll to Court Fund Employees.

Local Emergency Planning Commission – accounts for state and federal grant funds received and disbursed as restricted by the grant agreements.

County Bridge and Road Improvement – accounts for state, local, and miscellaneous receipts and disbursements are for the purpose of constructing and maintaining county roads and bridges.

Indigent Care – accounts for the collection of rental revenue of farms donated to the County and disbursements for the needy of the County as determined by the Board of County Commissioners.

C. Basis of Accounting

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

Title 19 O.S. § 171 specifies the format and presentation for Oklahoma counties to present their financial statement in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or on a regulatory basis. The County has elected to present their financial statement on a regulatory basis in conformity with Title 19 O.S. § 171. County governments (primary only) are required to present their financial statements on a fund basis format with, at a minimum, the general fund and all other county funds, which represent ten percent or greater of total county revenue with all other funds included in the audit presented in the aggregate in a combining statement. However, the County has elected to present all funds included in the audit in the Statement of Receipts, Disbursements, and Changes in Cash Balances—Regulatory Basis.

D. Budget

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

**COTTON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

E. Cash and Investments

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

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County's deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

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

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

2. Ad Valorem Tax

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. The County Treasurer, according to the law, shall give notice of delinquent taxes and special assessments by publication once a week for two consecutive weeks at any time after April 1, but prior to the end of September following the year the taxes were first due and payable. Unpaid real property taxes become a lien upon said property after the treasurer has perfected the lien by public notice.

**COTTON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

3. Other Information

A. Pension Plan

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

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

B. Other Post Employment Benefits (OPEB)

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

C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the County expects such amounts, if any, to be immaterial.

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

**COTTON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

D. Sales Tax

Sales Tax of March 1, 1984

The voters of Cotton County approved a one percent (1%) sales tax for general operations and county roads on February 7, 1984. The sales tax is for an unlimited duration and became effective March 1, 1984. These funds are accounted for within the County General Fund.

Sales Tax of July 1, 2015

The voters of Cotton County approved a permanent county sales tax of three-fourths (3/4) of one cent through a special election on March 3, 2015, in addition to any and all existing sales tax, provided that the revenues from such tax be allocated and used for the purpose of support in maintaining, continuing, equipping and purchasing of Cotton County, Oklahoma operations. These operations include, but are not limited to, maintenance and/or construction of buildings or facilities, equipment purchases, personnel salaries, property maintenance and upkeep, road and bridge maintenance, and daily operations of Cotton County, Oklahoma. These funds are accounted for within the County General Fund.

Sales Tax of July 1, 2018

The voters of Cotton County approved a one-quarter (1/4) of one cent sales tax to conduct the educational services of the Cotton County Cooperative Extension Program and one-eighth (1/8) of the one-quarter (1/4) of one cent sales tax to be used to maintain the Cotton County Free Fair Board, Ag Arena and Expo Center on June 26, 2018, and became effective July 1, 2018 for an unlimited duration. These funds are accounted for within the County General Fund.

E. Interfund Transfers

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

- \$13,419, a residual balance, was transferred from the Sheriff Board of Prisoners fund to the Sheriff Service Fee fund by BOCC resolution to close the fund.
- \$883 was transferred from the Sheriff Estray Cattle fund (a trust & agency fund) to the County General fund in accordance with the 4 O.S. § 85.6d
- \$3,750 was transferred from the Emergency Management Grant fund to the Emergency Management Salary fund within the County General fund for the purpose of payroll and purchases.
- \$1,650 was transferred from the Emergency Management Grant fund to the County Donations fund to upfront funds to purchase safety backpacks from donated funds.

**COTTON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

- \$4,000 was transferred from the County Bridge and Road Improvement fund to reimburse the County Highway Unrestricted fund for bridge planks purchased in the prior year for a bridge project.
- \$1,650 was transferred from County Donations fund to the Emergency Management Grant fund to reimburse upfront funds used to purchase safety backpacks from donated funds.

SUPPLEMENTARY INFORMATION

COTTON COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL—
BUDGETARY BASIS—GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund		
	Budget	Actual	Variance
County Sheriff	\$ 150,423	\$ 149,418	\$ 1,005
County Treasurer	82,046	80,752	1,294
O.S.U. Extension	90,494	33,797	56,697
County Clerk	51,977	49,062	2,915
Court Clerk	73,090	73,088	2
County Assessor	78,723	76,665	2,058
Revaluation of Real Property	96,191	90,378	5,813
General Government	21,847	4,766	17,081
Excise - Equalization Board	2,850	2,734	116
County Election Board	56,867	56,605	262
Insurance - Benefits	193,804	154,279	39,525
Civil Defense	29,671	26,359	3,312
County Sheriff - Sales Tax	155,077	155,034	43
County Clerk - Sales Tax	53,216	52,764	452
Insurance - Benefits - Sales Tax	225,328	224,030	1,298
General Government - Sales Tax	106,536	84,589	21,947
E-911	22,284	22,284	-
County Audit Budget Account	3,949	-	3,949
Free Fair Budget Account	500	435	65
Total Expenditures, Budgetary Basis	<u>\$ 1,494,873</u>	<u>\$ 1,337,039</u>	<u>\$ 157,834</u>

COTTON COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL—
BUDGETARY BASIS—HEALTH FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Health Fund		
	Budget	Actual	Variance
County Health Budget Account	\$ 213,551	\$ 87,930	\$ 125,621
Total Expenditures, Budgetary Basis	\$ 213,551	\$ 87,930	\$ 125,621

**COTTON COUNTY, OKLAHOMA
NOTE TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

1. Budgetary Schedules

The Comparative Schedules of Expenditures—Budget and Actual—Budgetary Basis for the General Fund and the Health Fund present comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Statement of Receipts, Disbursements, and Changes in Cash Balances (with Combining Information) because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

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

INTERNAL CONTROL AND COMPLIANCE SECTION

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

TO THE OFFICERS OF
COTTON COUNTY, OKLAHOMA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined total—all funds of the accompanying Statement of Receipts, Disbursements, and Changes in Cash Balances (with Combining Information) of Cotton County, Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statement, which collectively comprises Cotton County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated August 31, 2021.

Our report included an adverse opinion on the financial statement because the statement is prepared using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County for the year ended June 30, 2020, on the basis of accounting prescribed by Oklahoma state law, described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Cotton County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Cotton County's internal control. Accordingly, we do not express an opinion on the effectiveness of Cotton County's internal control.

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



Our consideration of internal control was for the limited purpose described in the first 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses: 2020-001 and 2020-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cotton County's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2020-004.

We noted a certain matter regarding statutory compliance that we reported to the management of Cotton County, which is included in Section 2 of the schedule of findings and responses contained in this report.

Cotton County's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.) and shall be open to any person for inspection and copying.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

August 31, 2021

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

SECTION 1—Findings related to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Finding 2020-001 – Lack of County-Wide Internal Controls (Repeat Finding - 2010-001, 2012-001, 2013-001, 2014-001, 2015-001, 2017-001, 2018-001, 2019-001)

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

Cause of Condition: Policies and procedures have not been designed and implemented to address the risks of the County.

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

Recommendation: The Oklahoma State Auditor & Inspector’s Office (OSAI) recommends that the County design and implement policies and procedures to document their internal control framework. This documentation should outline the importance of internal controls, the risk that the County has identified, the control activities established to address the risk, the steps taken to properly communicate pertinent information in a timely manner and the methodology to monitor the quality of performance over time. These procedures should be written policies and procedures and could be included in the County’s policies and procedures handbook.

Management Response:

Chairman of the Board of County Commissioners: The Board of County Commissioners (BOCC) will work towards assessing and identifying risks to design written county-wide controls.

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

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

Definition of Internal Control

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

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

Components, Principles, and Attributes

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

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

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

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

Finding 2020-004 – Lack of Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding - 2007-005, 2010-007, 2012-007, 2013-004, 2014-004, 2015-004, 2017-004, 2018-004, 2019-004)

Condition: Upon inquiry and observation of the disbursement process, we noted that the signature stamps of the County Clerk and the Chairman of the BOCC are utilized by deputies in the County Clerk’s office.

Additionally, while performing the expenditure testwork, the following was noted:

- A sample of forty-five (45) disbursements were selected from county funds and determined:
 - Five (5) disbursements totaling \$81,198 were not properly encumbered in accordance with state statute.

Cause of Condition: Policies and procedures have not been designed and implemented to strengthen internal controls and ensure compliance with state statute.

Effect of Condition: This condition resulted in noncompliance with state statute which could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends the County implement a system of internal controls over the disbursement process. Such controls should include ensuring that signature stamps are only used by the individual whose name appears on the stamp, and ensuring that funds are encumbered prior to the receipt of goods and/or services, to ensure compliance with 19 O.S. § 1505.

Management Response:

Chairman of the Board of County Commissioners: The Board of County Commissioners will express to fellow County officials the importance of County funds being encumbered prior to the receipt of goods

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and/or services. Signature stamps will only be accessible and used by the individual whose name appears on the stamp.

County Clerk: We will work towards implementing that signature stamps are only accessed and used by the owner of the stamp.

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

Segregation of Duties

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

Additionally, Principle 10 - Segregation of Duties states:

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

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

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

Further, effective internal controls require that management properly implement procedures to ensure that purchases comply with 19 O.S. § 1505.

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SECTION 2—This section contains a certain matter not required to be reported in accordance with *Government Auditing Standards*. However, we believe this matter is significant enough to bring to management’s attention. We recommend that management consider this matter and take appropriate corrective action.

Finding 2020-011 – Lack Internal Controls Over the Court Clerk Receipting and Disbursement Processes (Repeat Finding - 2010-009, 2013-011, 2014-011, 2015-011, 2017-011, 2018-011, 2019-011)

Condition: Upon inquiry and observation of records within the Court Clerk’s office, we noted the following deficiencies in the collections, the disbursement, and the reporting processes:

- All employees issue receipts and work from one cash drawer.
- The disbursement duties were not adequately segregated. One (1) employee is responsible for printing the Court Fund vouchers, preparing the claim, comparing the vouchers to the claim, signing the vouchers, registering vouchers with the County Treasurer, and distributing vouchers.
- The report preparation duties were not adequately segregated. Quarterly reports for the Court Fund and the Court Clerk Revolving Fund are not reviewed by someone other than the preparer.

Cause of Condition: Policies and procedures have not been designed and implemented to separate duties and document the review process within the office of the Court Clerk.

Effect of Condition: A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in the untimely detection of unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds.

Recommendation: OSAI recommends management be aware of these conditions and implement internal controls over the reconciling, reporting, and expenditure processes to safeguard assets.

Management Response:

Court Clerk: We will work to segregate duties over the disbursement process of the Court Fund and Court Clerk Revolving Fund and documentation of the review process will be maintained.

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

Segregation of Duties

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

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Additionally, Principle 10 - Segregation of Duties states:

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

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

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

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