

COUNTY AUDIT

COTTON COUNTY

For the fiscal year ended June 30, 2012



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



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

**COTTON COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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Oklahoma State Auditor & Inspector

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

March 11, 2014

TO THE CITIZENS OF
COTTON COUNTY, OKLAHOMA

Transmitted herewith is the audit of Cotton County, Oklahoma for the fiscal year ended June 30, 2012. 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, appearing to read "Gary A. Jones".

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

**COTTON COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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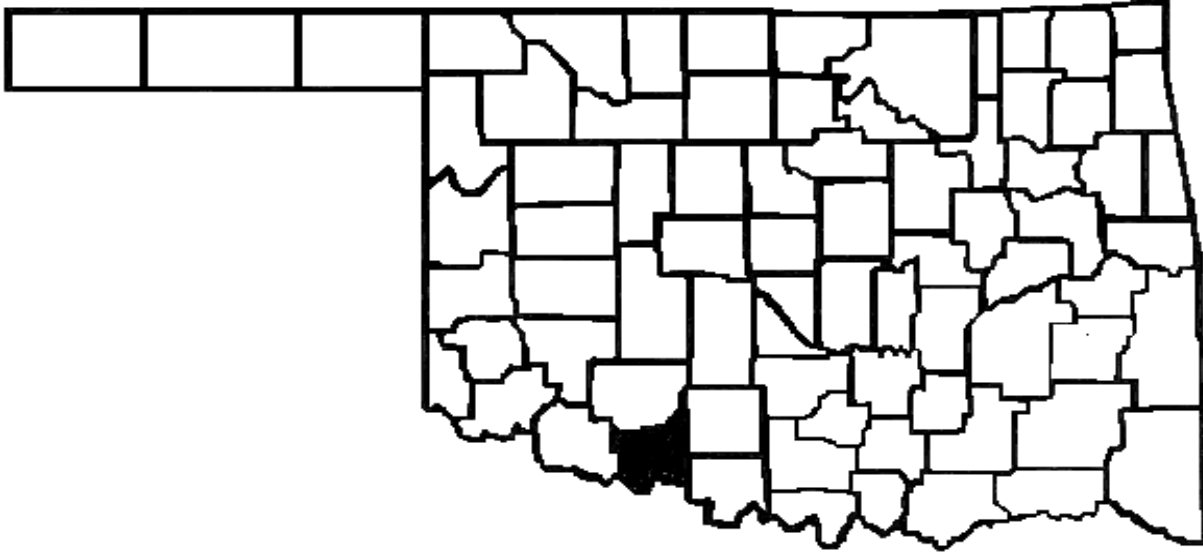
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**COTTON COUNTY, OKLAHOMA
STATISTICAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**



Cotton County is composed of land belonging at one time to Quapaws, Choctaws, and Chickasaws, the Comanche Reservation, and the Big Pasture. Part of it was created from the southern portion of Comanche County, and was formed as result of a vote of its residents on August 22, 1912, after statehood.

Agriculture has long been important to the economic base of the county. Principal crops include wheat and cotton. Livestock is also considered significant. Oil and gas production, begun in 1917, rose to nearly 800 producing wells by 1952, when it ranked ninth in the state in oil production. Walters, the county seat, is the home of the Cotton County Electric Cooperative, the largest rural electric cooperative in Oklahoma.

Annual events held in Walters include the Walters Car Cruz, Walters Round-Up Club Rodeo in July, the Cotton County Free Fair in September, and the Gallery on the Green Art Show in May. Sultan Park, north of Walters, is a recreational area and is the site of Comanche Indian powwows that are also held in July.

For more county information, call the county clerk's office at 580/875-3026.

County Seat – Walters

Area – 641.94 Square Miles

County Population – 6,281
(2009 est.)

Farms – 517

Land in Farms – 366,651 Acres

Primary Source: Oklahoma Almanac 2011-2012

**COTTON COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Board of County Commissioners

District 1 – Edward Eschiti
District 2 – Chris Lipscomb
District 3 – Greg Powell

County Assessor

Debbie Sturdivant

County Clerk

Nikki Vardell

County Sheriff

Paul Jeffrey

County Treasurer

Tammy Morris

Court Clerk

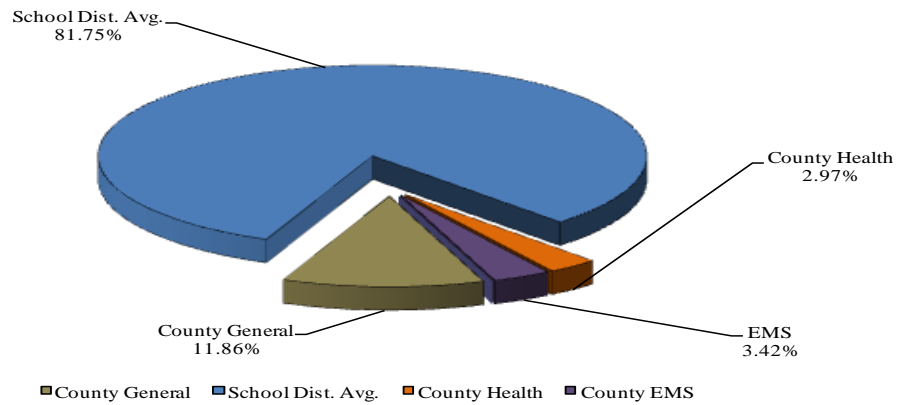
Debbie Hodnefield

District Attorney

Fred C. Smith

**COTTON COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

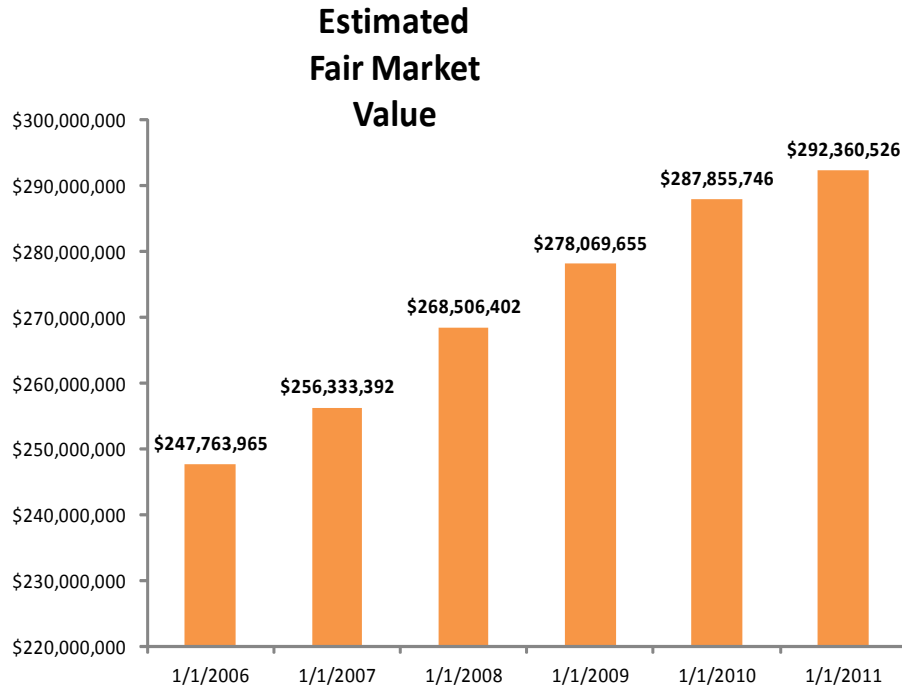
Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the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



County-Wide Millages		School District Millages							
				Gen.	Bldg.	Skg.	Career Tech	Common	Total
County General	10.40								
County Health	2.60	Walters	I-1	36.42	5.20	10.18	12.49	4.16	68.45
County EMS	3.00	Temple	I-101	36.62	5.23	10.49	12.49	4.16	68.99
		Big Pasture	Jt I-333	36.43	5.20	14.29	14.44	4.16	74.52
		Comanche/Geronimo	Jt I-4	35.75	5.11	24.99	14.44	4.16	84.45
		Stephens/Empire	Jt I-21	36.54	5.22	20.70	12.49	4.16	79.11
		Jefferson/Waurika	Jt I-23	35.00	5.00	-	12.49	4.16	56.65
		Comanche/Chattanooga	Jt I-132	35.42	5.06	21.98	14.44	4.16	81.06
		Tilman/Granfield	Jt I-249	36.38	5.20	-	14.44	4.16	60.18

**COTTON COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

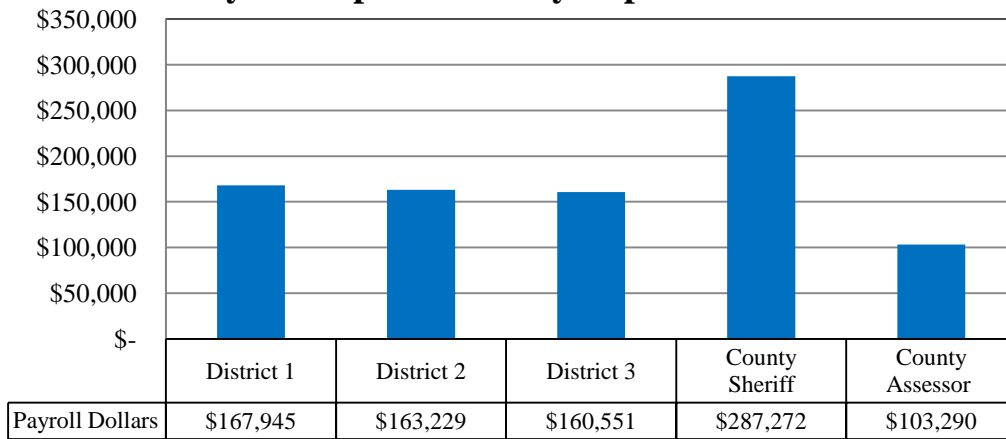
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2011	\$3,336,488	\$6,243,954	\$28,340,982	\$1,774,549	\$36,146,875	\$292,360,526
1/1/2010	\$3,305,354	\$6,037,868	\$27,943,953	\$1,637,240	\$35,649,935	\$287,855,746
1/1/2009	\$3,074,420	\$5,683,043	\$27,194,097	\$1,628,713	\$34,322,847	\$278,069,655
1/1/2008	\$3,035,115	\$5,553,431	\$26,156,509	\$1,630,839	\$33,114,216	\$268,506,402
1/1/2007	\$2,733,115	\$5,952,300	\$23,749,538	\$1,647,391	\$30,787,562	\$256,333,392
1/1/2006	\$2,729,297	\$6,355,036	\$22,565,182	\$1,461,284	\$30,188,231	\$247,763,965



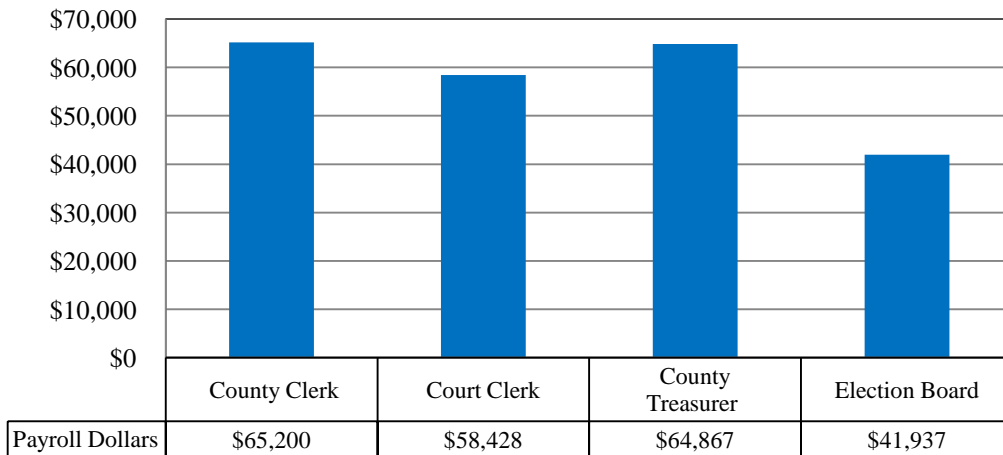
**COTTON COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County officers' salaries are based upon the assessed valuation and population of the counties. State statutes provide guidelines for establishing elected officers' salaries. The Board of County Commissioners sets the salaries for all elected county officials within the limits set by the statutes. The designated deputy or assistant's salary cannot exceed the principal officer's salary. Salaries for other deputies or assistants cannot exceed the principal officer's salary. The information presented below is for the fiscal year ended June 30, 2012.

Payroll Expenditures by Department



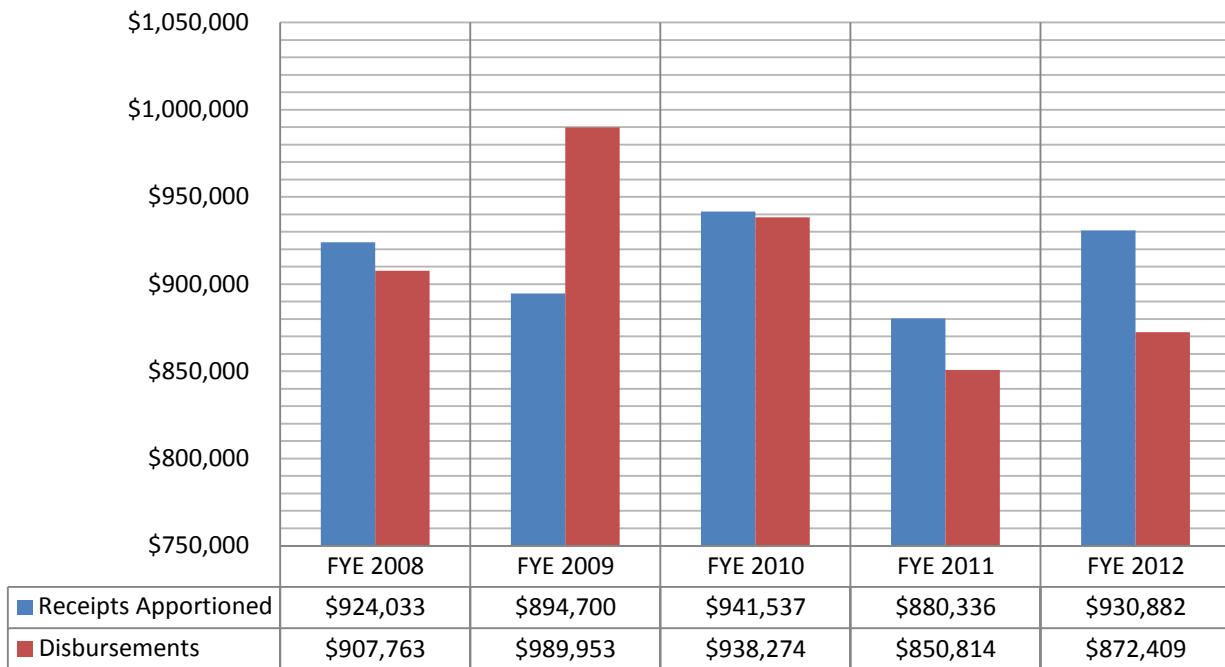
Payroll Expenditures by Department



**COTTON COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County General Fund

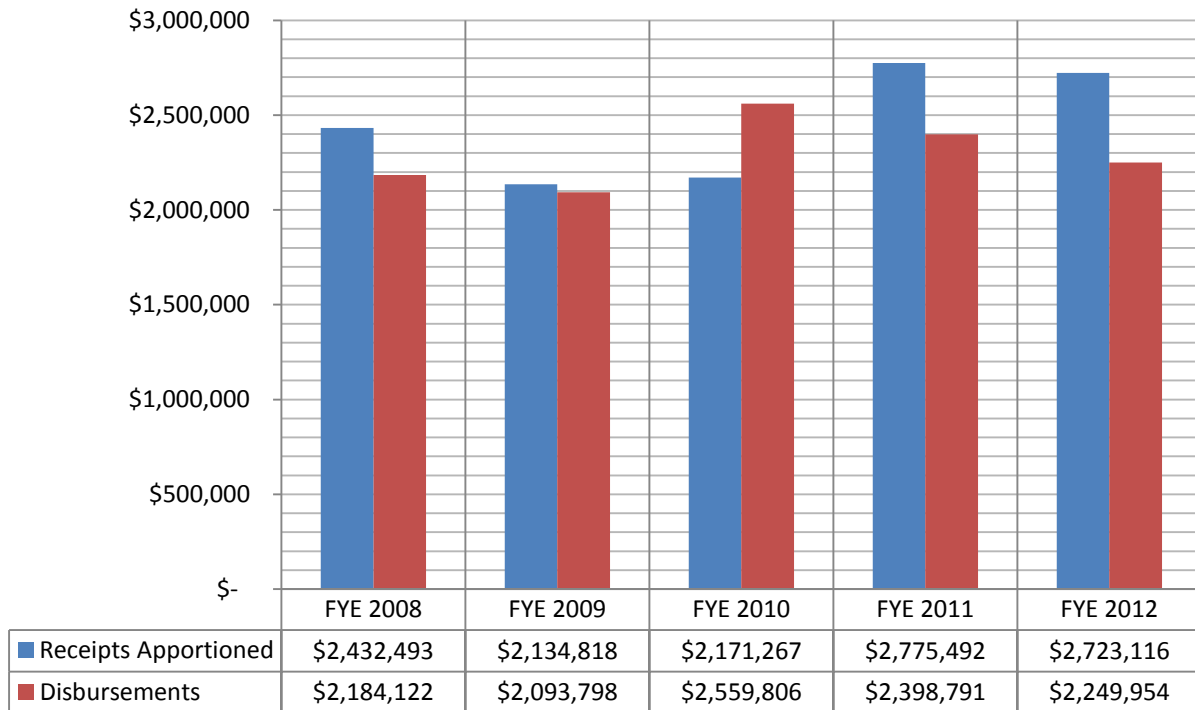
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also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



**COTTON COUNTY, OKLAHOMA
COUNTY HIGHWAY FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County Highway Fund

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



FINANCIAL SECTION



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405-521.3495 • Fax: 405-521.3426

Independent Auditor's Report

TO THE OFFICERS OF COTTON COUNTY, OKLAHOMA

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, 2012, listed in the table of contents as the financial statement. This financial statement is the responsibility of Cotton County's management. Our responsibility is to express an opinion on the combined total—all county funds on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared using accounting practices prescribed or permitted by Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The differences between this regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Cotton County as of June 30, 2012, or changes in its financial position for the year then ended.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash balances for all county funds of Cotton County, for the year ended June 30, 2012, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2014, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the combined total of all county funds on the financial statement. The Other Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the financial statement. Such supplementary information has been subjected to the auditing procedures applied in the audit of the combined total—all county funds on the regulatory basis Statement of Receipts, Disbursements and Changes in Cash Balances and, in our opinion, is fairly stated, in all material respects, in relation to the combined total—all county funds. The information listed in the table of contents under Introductory Section has not been audited by us, and accordingly, we express no opinion on it.

A handwritten signature in blue ink, appearing to read "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

March 10, 2014

REGULATORY BASIS FINANCIAL STATEMENT

COTTON COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)—MAJOR FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Beginning Cash Balances July 1, 2011	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2012
Combining Information:				
Major Funds:				
County General Fund	\$ 239,640	\$ 930,882	\$ 872,409	\$ 298,113
County Highway	1,880,476	2,723,116	2,249,954	2,353,638
County Health Department	130,595	97,895	56,226	172,264
Sheriff Service Fees	22,082	71,586	55,628	38,040
Board of Prisoners	45,153	320,864	303,523	62,494
Resale	33,308	50,510	29,056	54,762
Sheriff Commissary Fund	4,996	18,301	17,209	6,088
Free Fair Premiums	5,423	2,135	2,294	5,264
REAP Grant	63	22,500	22,563	-
CDBG Grant	1,942	-	1,942	-
Remaining Aggregate Funds	108,098	451,172	370,524	188,746
Combined Total - All County Funds	<u>\$ 2,471,776</u>	<u>\$ 4,688,961</u>	<u>\$ 3,981,328</u>	<u>\$ 3,179,409</u>

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, 2012**

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, 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 Fund – accounts for the general operations of the government.

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

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

Sheriff Service Fees – accounts for the collection and disbursement of sheriff process service fees as restricted by statute.

Board of Prisoners – accounts for the collection of state miscellaneous receipts and disbursements for the purpose of maintaining the jail.

**COTTON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Sheriff Commissary Fund – accounts for the collection from the sale of items to inmates and disbursements to purchase commissary goods from the vendor and can be used for maintenance and operation of the jail.

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

REAP Grant – accounts for the collection of state grant monies and disbursed as restricted by grant agreements.

CDBG Grant – accounts for federal funding for the purchase and installation of energy efficient heating and air units in the Courthouse.

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 on a regulatory basis. County governments (primary only) are required to present their financial statements on a fund basis format with, at a minimum, the general fund and all other county funds, which represent ten percent or greater of total county revenue. All other funds included in the audit shall be presented in the aggregate in a combining statement.

D. Budget

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

**COTTON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

**COTTON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

D. Sales Tax

The voters of Cotton County approved a one percent sales tax for general operations and county roads, February 7, 1984. The sales tax is for an unlimited duration and became effective March 1, 1984.

On February 11, 2003, via special election, Cotton County voters approved a quarter of one percent sales tax for maintaining the county's portion of the cost for the Cotton County Cooperative Extension Center (OSU). The sales tax became effective July 1, 2003 for the duration of five years. This sales tax was to expire June 30, 2008, but was renewed by county voters on February 5, 2008. At that time, voters also approved one eighth of the one quarter percent to be used to maintain the Cotton County Free Fair Board and the Cotton County Ag

**COTTON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Arena and Expo Center, effective July 1, 2008 for the duration of an additional five years. These funds are accounted for within the General Fund.

OTHER SUPPLEMENTARY INFORMATION

COTTON COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 239,640	\$ 239,640	\$ -
Less: Prior Year Outstanding Warrants	(55,924)	(55,924)	-
Less: Prior Year Encumbrances	(13,786)	(13,200)	586
Beginning Cash Balances, Budgetary Basis	<u>169,930</u>	<u>170,516</u>	<u>586</u>
Receipts:			
Ad Valorem Taxes	337,054	372,664	35,610
Sales Tax	204,973	269,445	64,472
Charges for Services	21,838	25,085	3,247
Intergovernmental Revenues	204,559	233,714	29,155
Miscellaneous Revenues	32,137	29,974	(2,163)
Total Receipts, Budgetary Basis	<u>800,561</u>	<u>930,882</u>	<u>130,321</u>
Expenditures:			
County Sheriff	203,051	201,032	2,019
County Treasurer	76,379	74,835	1,544
County Commissioners-Osu Extension	94,565	37,594	56,971
County Clerk	41,677	40,563	1,114
Court Clerk	63,480	63,228	252
County Assessor	66,279	65,526	753
Revaluation of Real Property	79,777	78,568	1,209
General Government	52,815	47,096	5,719
Excise-Equalization Board	2,850	2,210	640
County Election Board	48,750	48,596	154
Insurance - Benefits	219,276	202,025	17,251
County Audit Budget Account	11,100	-	11,100
Free Fair Budget	400	400	-
Free Fair Improvement	10,092	7,098	2,994
Total Expenditures, Budgetary Basis	<u>970,491</u>	<u>868,771</u>	<u>101,720</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>232,627</u>	<u>\$ 232,627</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		11,700	
Add: Current Year Encumbrances		53,786	
Ending Cash Balance		<u>\$ 298,113</u>	

**COTTON COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY HEALTH DEPARTMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 130,595	\$ 130,595	\$ -
Less: Prior Year Outstanding Warrants	(2,570)	(2,570)	-
Less: Prior Year Encumbrances	(5,207)	(3,615)	1,592
Beginning Cash Balances, Budgetary Basis	122,818	124,410	1,592
Receipts:			
Ad Valorem Taxes	84,263	93,139	8,876
Charges for Services	3,956	3,955	(1)
Intergovernmental	-	794	794
Miscellaneous Revenues	-	7	7
Total Receipts, Budgetary Basis	88,219	97,895	9,676
Expenditures:			
Health and Welfare	211,037	54,421	156,616
Total Expenditures, Budgetary Basis	211,037	54,421	156,616
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	167,884	\$ 167,884
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		3,462	
Add: Current Year Outstanding Warrants		918	
Ending Cash Balance		\$ 172,264	

COTTON COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS—
REMAINING AGGREGATE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Beginning Cash Balances July 1, 2011	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2012
Remaining Aggregate Funds:				
Free Fair Building Fund	\$ 4,114	\$ -	\$ 3,375	\$ 739
Rural Water Grant	-	179,252	102,898	76,354
Sheriff Forfeiture Fund	41	-	-	41
Sheriff Dare Fund	75	1,390	-	1,465
Visual Inspection Reimbursement Fund	2,216	-	-	2,216
County Assessor Revolving Cash Account	7,119	1,626	-	8,745
Sheriff Reserves Fund	177	477	-	654
Mortgage Certification Fee Fund	3,146	1,420	1,674	2,892
County Clerk Lien Fee Fund	11,920	2,778	1,705	12,993
Glessner Fund	60,158	8,250	7,675	60,733
Sheriff Equipment and Training Fund	42	-	-	42
Sheriff Donations Fund	615	981	6	1,590
Trash Cop Grant	26	-	26	-
Free Fair Donations Fund	7,094	5,147	8,139	4,102
Sheriff Drug Fund	24	-	-	24
County Clerk Records Management Fund	11,181	7,450	7,746	10,885
Littering Reward Fund	150	301	-	451
Stimulus Energy Efficiency CDBG	-	242,100	237,280	4,820
Combined Total - Remaining Aggregate Funds	\$ 108,098	\$ 451,172	\$ 370,524	\$ 188,746

**COTTON COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. Budgetary Schedules

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

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

2. Remaining County Funds

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

Free Fair Building Fund – accounts for insurance reimbursements, federal funds, and other miscellaneous revenue to repair the Free Fair building.

Rural Water Grant – accounts for the receipt grant monies and disbursed as restricted by grant agreement.

Sheriff Forfeiture Fund – accounts for money seized and forfeited as a result of drug enforcement.

Sheriff Dare Fund – accounts for donations disbursed for the purpose of drug education and drug awareness.

Visual Inspection Reimbursement Fund – accounts for the collection and expenditure of monies by the Assessor as restricted by state statute for the visual inspection program.

County Assessor Revolving Cash Account – accounts for the collection of fees for copies restricted by state statute.

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

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

**COTTON COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Glessner Fund – 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.

Sheriff Equipment & Training Fund – accounts for the collection and disbursement of money supplied to the Sheriff’s office for the training of officers.

Sheriff Donations Fund – accounts for collection of donations used for training, equipment, and supplies.

Trash Cop Grant – accounts for the receipt of donations for deputies to patrol roads to control illegal trash dumping.

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

Sheriff Drug Fund – accounts for collection of donations used for training, equipment, and supplies.

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

Littering Reward Fund – accounts for a portion of Court Clerk fine collections for the payment of rewards to persons providing information to law enforcement regarding illegal dumping.

Stimulus Energy Efficiency CDBG – accounts for the receipt grant monies and disbursed as restricted by grant agreement.

INTERNAL CONTROL AND COMPLIANCE SECTION



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405-521.3495 • Fax: 405-521.3426

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 the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Cotton County, Oklahoma, as of and for the year ended June 30, 2012, which 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 March 10, 2014. Our report on the basic financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. 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, 2012, on the basis of accounting prescribed by Oklahoma state law, described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cotton County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Cotton County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cotton County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying schedule of findings and responses to be material weaknesses in internal control over financial reporting. *2012-1, 2012-3, 2012-4, and 2012-5.*

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. 2012-2, 2012-7, 2012-9, 2012-10, and 2012-14.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cotton County's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2012-9.

We noted certain matters that we reported to the management of Cotton County, which are included in Section 2 of the schedule of findings and responses contained in this report.

Cotton County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Cotton County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, those charged with governance, others within the entity, and is not intended to be and should not be used by anyone other than the specified parties. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S., section 24A.1 et seq.), and shall be open to any person for inspection and copying.



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

March 10, 2014

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 2012-1 - Inadequate County-Wide Controls

Condition: County-wide controls regarding Risk Management and Monitoring have not been designed.

Cause of Condition: Procedures have not been designed to address risks of the County.

Effect of Condition: This condition 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 procedures to identify and address risks. OSAI also recommends that the County design monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the County's policies and procedures handbook.

Management Response:

BOCC Chairman, County Clerk, and County Treasurer: We will meet quarterly, in the County Commissioners' meeting, with all elected officials to discuss and take action regarding risk management and monitoring.

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

Risk Assessment is a component of internal control which should provide for an assessment of the risks the County faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives.

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

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Finding 2012-2 - Disaster Recovery Plan

Condition: The offices of County Treasurer, County Assessor, County Sheriff, Court Clerk, and the Board of County Commissioners (BOCC) do not have a written Disaster Recovery Plan.

Cause of Condition: A formal, written Disaster Recovery Plan with regard to the accounting and records was not designed due to the County being unaware for the need of such a procedure.

Effect of Condition: The failure to have a current formal Disaster Recovery Plan could result in the County being unable to function in the event of a disaster. The lack of a formal plan could cause significant problems in ensuring county business could continue uninterrupted.

Recommendation: OSAI recommends that each elected official develop a Disaster Recovery Plan that addresses how critical information and systems within their offices would be restored in the event of a disaster. The Plan should include the following:

- Current names, addresses, contact numbers of key county personnel and their roles and responsibilities of information services function.
- Listing of contracted service providers.
- Information on location of key resources, including back-up site for recovery operating system, application, data files, operating manuals and program/system/user documentation.
- Alternative work locations once IT resources are available.

Management Response:

County Commissioner District 1, District 2, and District 3: The BOCC will work to create a Disaster Recovery Plan for each District and work with all officials to ensure that each office has a Disaster Recovery Plan and that they are all filed with the County Clerk.

County Treasurer: The County Treasurer and staff are working on a Disaster Recovery Plan at this time, and when completed, will give copies of this plan to the BOCC and the County Treasurer will store a copy off-site.

County Assessor: I intend to complete a Disaster Recovery Plan for the Assessor's office.

County Sheriff: The Cotton County Sheriff's Office will develop a Disaster Recovery Plan for the safeguarding of assets and to ensure that business could continue as usual in the event of a disaster. The Disaster Recovery Plan will encompass the following items:

- Current names, addresses, contact numbers of key county personnel and their roles and responsibilities of information services function.
- Listing of contracted service providers.
- Information on location of key resources, including back-up site for recovering operating system, application, data files, operating manuals, and program/system/user documentation.
- Alternative work locations once IT resources are available.

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Court Clerk: In response to a Disaster Recovery Plan, I will devise a plan for my office.

Criteria: An important aspect of internal control is the safeguarding of assets which includes adequate Disaster Recovery Plans. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention in a County being unable to function in the event of a disaster. Disaster Recovery Plan(s) are an integral part of county operations to ensure that business can be continued as usual in the event of a disaster. Each office or the county as a whole should have a current, detailed Disaster Recovery Plan on file and should be aware of its content.

According to the standards of the Information Systems Audit and Control Association (CobiT, Deliver and Support 4), information services function management should ensure that a written Disaster Recovery Plan is documented and contains guidelines and instructions for the County to follow in the event of a disaster.

Finding 2012-3 - Inadequate Segregation of Duties and Internal Controls Over the Collections Process

Condition: The County Treasurer has segregated the duties of preparing/reviewing deposits and performing bank reconciliations; however, the employees who perform these duties also issue receipts and prepares journal entries. In addition, all employees work from the same cash drawer. For mail-in payments, all employees can open the mail and issue receipts. A daily mail log is not maintained.

Cause of Condition: In order to provide prompt services to the citizens of Cotton County and for ease of operations, the County Treasurer's office utilizes all employees to issue receipts. Additionally, due to the limited number of personnel, one individual is sometimes responsible for all key functions of the office.

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

Recommendation: OSAI recommends the following key accounting functions of the Treasurer's office be adequately segregated:

- Issuing receipts.
- Preparing/reviewing deposits and taking them to the bank.
- Maintaining accounting ledgers and reconciling bank statements.

In addition, OSAI recommends establishing a system of internal controls to adequately protect the collections of the Treasurer's office, which include but are not limited to the following:

- Establish separate cash drawers for all employees receiving cash.
- Compile a daily log of mailed in payments.

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating internal controls to mitigate the risks involved with a concentration of duties. Compensating internal controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions.

Management Response:

County Treasurer: Bank statements are segregated somewhat, as we do not allow the employee making the deposits to the General Fund to reconcile the General Fund bank statement, nor do we allow the employee that does the official deposit to reconcile the official depository bank statement. After bank statements are balanced, they are reviewed and will be approved by the County Treasurer. We are reviewing our options at this time in order to decide the most efficient way to establish separate cash drawers, and prepare a daily mail log.

Criteria: Effective internal controls require that key functions within a process be adequately segregated to allow for prevention and detection of errors and possible misappropriation of funds.

Finding 2012-4 - Inadequate Segregation of Duties Over the Purchasing Process

Condition: The County Clerk has segregated the duties of encumbering funds and posting to the ledgers from the printing and distribution of payments; however, in addition to encumbering funds and posting to the ledgers, the Purchasing Agent also prepares the purchase orders, reviews for accuracy, and certifies that the purchase orders are ready for payment.

Cause of Condition: Policies and procedures have not been designed with regard to segregation of duties and/or compensating controls of the purchasing process.

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

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

Management Response:

County Clerk: Management is aware of this condition and will work to implement compensating controls to mitigate the risk involved with a concentration of duties.

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

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Finding 2012-5 - Inadequate Segregation of Duties Over the Payroll Process

Condition: Although the County Clerk's Second Deputy and the Payroll Clerk are cross-trained in the payroll process, the duties of enrolling new hires, making payroll changes, running verification reports, printing payroll checks, distributing payroll checks, and maintaining personnel files are not formally segregated.

Cause of Condition: Policies and procedures have not been designed with regard to segregation of duties and/or compensating internal controls of the payroll process.

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

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

Management Response:

County Clerk: Compensating controls will be implemented. The key payroll processes will be separated where possible. All reviews will be documented and dated.

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

Finding 2012-7 - Inadequate Internal Controls Over Disbursements and Noncompliance with State Statute

Condition: While testing twenty-three purchase orders and twenty-five payroll transactions, we noted the following:

- Ten were not supported by a receiving report.
- One purchase order number was switched with another purchase order number; however, amounts paid were correct.
- One receiving report predated the invoice.
- One receiving report was \$1.00 short to the amount actually disbursed.
- Two timesheets prepared did not have an approval signature.
- One timesheet prepared did not have an employee signature or approval signature.
- One timesheet was not provided.

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Cause of Condition: The County did not follow the policies and procedures designed by statute regarding the purchasing process.

Effect of Condition: These conditions resulted in noncompliance with state statute, laws, regulations, or legislative intent, and could result in inaccurate records, incomplete information, or misappropriation of assets.

Recommendation: OSAI recommends that the County adhere to state purchasing guidelines. Purchase orders should be encumbered before goods or services are ordered and receiving reports should be completed, authorized, and attached to the purchase order. OSAI further recommends that all timesheets be maintained and signed by employee and approving officer.

Management Response:

BOCC Chairman: Purchase orders will have proper documentation attached and will be properly encumbered or a letter from our legal counsel will be obtained prior to BOCC approval of purchase orders.

County Clerk: All purchase orders that do not comply with purchasing guidelines will be marked as *“Does not comply with purchasing guidelines”* prior to being submitted to the BOCC for approval.

Criteria: Title 19 O.S. § 1505 prescribes the procedures established for the requisition, purchase, lease-purchase, rental, and receipt of supplies, material, and equipment for maintenance, operation, and capital expenditures of county government.

Further, good internal controls would include all supporting documentation related to disbursements be attached to the purchase order prior to approval for payment. Timesheets should be completed and signed by each employee and signed by the approving officer.

Finding 2012-9 - Inadequate Internal Controls over Pledged Collateral and Noncompliance with Statute

Condition: Based upon inquiry of the County Treasurer’ staff and observation of records, we noted the following:

- Pledged collateral amounts are not monitored to daily bank balances to ensure that county funds are adequately secured.
- County funds were undercollateralized as of December 31, 2011 in the amount of \$586,241.69.

Cause of Condition: Procedures performed to ensure daily bank deposits are adequately secured are not properly designed.

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Effect of Condition: These conditions resulted in noncompliance with state statute. Failure to properly monitor pledged collateral amounts would result in unsecured county funds and possible loss of county funds.

Recommendation: OSAI recommends the County Treasurer use the end of day bank balance to compare to collateral amounts to ensure adequate collateralization. Documentation for this daily procedure should be maintained.

Management Response:

County Treasurer: The County Treasurer’s office will maintain a ledger to monitor pledged securities on a daily basis.

Criteria: Title 62 O.S. § 517.4(A) states, “A treasurer of a public entity shall require that financial institutions deposit collateral securities or instruments to secure the deposits of the public entity in each such institution. The amount of collateral securities or instruments to be pledged for the security of public deposits shall be established by the treasurer of the public entity consistent with the provisions of the Security for Local Public Deposits Act; provided, such amount shall not be less than the amount of the deposit to be secured, less the amount insured.”

Further, effective internal controls would include monitoring the daily bank balances to the amount of securities pledged to protect the County against loss of investments.

Finding 2012-10 – Inadequate Internal Controls and Noncompliance Over County Sales Tax Appropriations

Condition: The county sales tax is accounted for within the County General Fund. For the fiscal year ending June 30, 2012, sales tax was not appropriated in accordance with sales tax ballot(s). The following exceptions were noted:

Account/Fund	Sales Tax Collections Plus Prior Year’s Unexpended Balance	Sales Tax Appropriated	<Under> Appropriated
OSU Extension	\$98,697.14	\$94,564.64	<\$4,132.50>
FreeFair/Ag Arena/Expo Center	\$11,063.65	\$10,092.27	<\$971.38>

Cause of Condition: Policies and procedures have not been designed to ensure compliance with state statute 68 O.S. § 1370E.

Effect of Condition: Sales tax was not appropriated in accordance with sales tax ballot(s), which resulted in noncompliance with state statute.

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Recommendation: OSAI recommends that management implement internal controls to ensure that the excess sales tax collections is apportioned and appropriated in accordance with the sales tax ballot(s).

Management Response:

BOCC: We have discussed this issue with the budget maker. This was an oversight and corrective measures will be taken.

Criteria: Effective internal controls require that management properly implement procedures to ensure compliance with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designated.

Finding 2012-14 - Inadequate Internal Controls Over Information Systems Security – County Clerk and County Treasurer

Condition: Upon review of the computer systems within the County Treasurer and the County Clerk's offices, it was noted that there does not appear to be adequate controls in place to safeguard data from unauthorized modification, loss, or disclosure. The following was noted:

- Passwords are not required to be changed periodically in the County Clerk's or the County Treasurer's offices.
- User roles are not being used in the County Clerk's or the County Treasurer's computer programs to segregate duties and responsibilities effectively. All users have full administrative rights.
- The audit log is not being utilized as a form of management oversight.

Cause of Condition: Procedures have not been designed to address security management over information systems.

Effect of Condition: This condition could result in compromised security for the computers, computer programs, and data.

Recommendation: OSAI recommends the County work with IT personnel or in conjunction with software vendors to establish password requirements for length, character and an expiration of a minimum of at least every ninety days. In addition, OSAI recommends passwords not be shared and access to servers should be limited.

Management Response:

County Treasurer: The County Treasurer's office will begin changing passwords every 90 days and check with the software vendor about installing the audit log.

County Clerk: The County Clerk will check with the software vendor to determine what levels of security are in place and will double-check password protection.

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Deliver and Support DS5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

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

Finding 2012-11 - Inadequate Internal Controls Over the Court Clerk Revolving Fund and Court Fund Expenditure Process

Condition: Upon inquiry and observation of the Court Clerk Revolving Fund and the Court Fund expenditure process, it was noted that the Court Clerk and the First Deputy solely performs key duties with no independent verification of accuracy. The Court Clerk initiates and prepares the claim, signs the claim along with the District Judge, and prepares and signs checks.

Cause of Condition: Policies and procedures have not been designed and implemented to address the lack of segregation of duties over expending Court Clerk Revolving Fund and Court Fund monies.

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 unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

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

Management Response:

Court Clerk: We will implement compensating controls to mitigate the risks involved with a concentration of duties. I will have the First Deputy verify the claims and have the Treasurer sign and date the end of the month report.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of preparing the claim, attaching and agreeing

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

supporting documentation, certifying receipt of goods/services, signing the claim, and preparing and signing the checks should be segregated.

Finding 2012-12 - Inadequate Internal Controls and Noncompliance Over the Inmate Trust and Sheriff Commissary

Condition: An examination of the Inmate Trust and Sheriff Commissary Funds revealed the following:

- Bank reconciliations are performed but are not reconciled to an inmate ledger. Also, there is an outstanding deposit of \$850.38 that is unexplained. This amount is a reconciling item that was on the books since November 3, 2009.
- Inmate Trust disbursements do not have two authorized signatures.
- The Sheriff's office does not make daily deposits.
- Receipts are not issued in numerical order; receipts are not marked for the purpose of inmate trust.
- The Sheriff's office does not file an annual report for the Commissary Fund with the Board of County Commissioners by January 15th of each year.
- All expenditures are made from the Inmate Trust Fund and are not filed with and allowed by the Board of County Commissioners.
- Expenditures were made for purposes other than those allowed by statute.

Cause of Condition: Policies and procedures have not been designed regarding the Inmate Trust and Sheriff Commissary Funds.

Effect of Condition: These conditions resulted in noncompliance with state statutes, laws, regulations or legislative intent. Further, without proper accounting and safeguarding of the Inmate Trust Fund, there is an increased risk of misappropriation of funds.

Recommendation: OSAI recommends the following:

- Key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.
- Expenditures should be made from the Sheriff Commissary Fund in accordance with 19 O.S. § 180.43.
- All receipts should be issued in numerical order.
- All collections should be deposited daily.
- All checks from the Inmate Trust Fund should have two authorized signatures.
- Inmate Trust Fund monies should be maintained in a manner that reflects all Inmate Trust deposits, disbursements, and account balances. The Inmate Trust Fund balances should be reconciled to the bank statements each month.

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

- The Sheriff should file a report of the commissary with the Board of County Commissioners by January 15th of each year.

Management Response:

County Sheriff:

1. The Cotton County Sheriff's Office will assure the segregation among different individuals in the handling of funds for the Inmate Trust and Sheriff Commissary Funds. This will be accomplished by having a separation of individuals counting the funds, receipting the funds, and depositing the funds.
2. All expenditures from the Inmate Trust and Sheriff Commissary Funds will be made in accordance with 19 O.S. § 180.43.
3. All receipts will be issued in numerical order.
4. All collections will be deposited daily.
5. All checks from the Inmate Trust Fund shall have two authorized signatures.
6. The Inmate Trust Fund shall be maintained in a manner that reflects all Inmate Trust deposits, disbursements, and account balances. The Inmate Trust Fund balances will be reconciled to the bank statement each month.
7. The Sheriff will file with the Board of County Commissioners an annual report on the Sheriff's Commissary by January 15th of each year.

Criteria: The overall goal of effective internal controls is to demonstrate accountability and stewardship. To help ensure a proper accounting of funds, no one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions. All collections should be receipted in sequential order and deposited daily, two authorized signatures should be required on all Inmate Trust account checks, bank reconciliations should be performed each month, and contracts should be approved by the Board of County Commissioners, contain all pertinent information, and be on file with the County.

Title 19 O.S. §180.43 (E) and (D) states in part, "Any funds received pursuant to said operations shall be the funds of the county where the persons are incarcerated and shall be deposited in the Sheriff's Commissary Account. The sheriff shall be permitted to expend the funds to improve or provide jail services. The sheriff shall be permitted to expend any surplus in the Sheriff's Commissary Account for administering expenses for training equipment, travel, or for capital expenditures. The claims for expenses shall be filed with and allowed by the board of county commissioners in the same manner as other claims. The Sheriff shall receive no compensation for the operation of said commissary. The sheriff shall file an annual report on any said commissary under his or her operation no later than January 15 of each year."

Title 19 O.S. § 531(A) states in part, "The county sheriff may establish a checking account, to be designated the "Inmate Trust Checking Account." The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account and may write checks to the Sheriff's Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate from unencumbered balances due the inmate upon his or her discharge."

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Finding 2012-13 - Inadequate Internal Controls and Noncompliance Over Fixed Assets and Consumable Inventories

Condition: Upon inquiry and observation of fixed assets and consumable inventory records, the following weaknesses were noted:

- **District 1, 2, and 3:** The consumable inventory process is not adequately segregated. One individual verifies the goods received, records the items on the inventory cards, and performs a visual verification of the items on hand.

Also, of the fourteen consumable items tested, the following was noted:

District Office	Description	Amount on Inventory	Amount Visually Verified
District 1	12" x 20' Spiral Tinhorn	6	5
District 3	48" x 40' Spiral Tinhorn	0	3
District 3	18" Plastic Pipe	0	100'

Additionally, our test of ninety fixed assets reflected that the following thirty-four items were not visibly marked with county identification numbers and/or "Property of Cotton County":

County ID Number	Description of Item	County Office
201-24	Typewriter	Treasurer
205-004	Copier	Treasurer
205-005	Copier	Treasurer
214-005	Time/Date Stamp	Treasurer
238-47	Computer	Treasurer
239-10	Printer	Treasurer
239-53	Printer	Treasurer
299-28	Computer	Treasurer
238-51	Computer Fingerprinter	Sheriff
238-54	ID Maker	Sheriff
331-22	1994 Van	Sheriff
331-32	2005 Ford Crown Victoria	Sheriff
331-37	2006 Dodge Charger	Sheriff
331-38	2006 Dodge Charger	Sheriff
640-17	Refrigerator	Sheriff
640-20	Freezer	Sheriff
105-04	Desk	County Clerk
214-04	Time/Date Stamp	County Clerk

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County ID Number	Description of Item	County Office
219-35	Shredder	County Clerk
238-38	Computer	County Clerk
238-39	Computer	County Clerk
205-14	Copier	Assessor
219-3	Laminator	Assessor
239-19	Printer	Assessor
241-1	Server	Assessor
348-16	Trailer	District #1
431-5	Rotary Cutter	District #1
301-20	Pickup	District #3
304-22	Tractor	District #3
345-07	Loader	District #3

Cause of Condition: Procedures have not been designed and implemented by county officers for the accurate reporting of fixed assets and consumable inventory items as well as procedures to ensure the properly marking of equipment.

Effect of Condition: These conditions resulted in noncompliance with state statutes. Opportunities for loss and misappropriation of county assets may be more likely to occur when the County does not have procedures in place to account for fixed assets and consumable inventories.

Recommendation: OSAI recommends the County adopt policies and procedures to implement a system of internal controls over the fixed assets and consumable inventory records to ensure compliance with 69 O.S. § 645, 19 O.S. § 178.1, 19 O.S. § 1502(A)(1), and 19 O.S. § 1504(A).

Management Response:

County Assessor: We will maintain documentation of the physical inventory in the future. We will also work to ensure that all items are properly marked with county identification numbers.

County Clerk: We will maintain documentation of the physical inventory in the future. We will also work to ensure that all items are properly marked with county identification numbers.

County Commissioner District 1: We will perform an annual inventory count and retain documentation. We will also work to ensure that all items are properly marked with county identification numbers.

County Commissioner District 2: We will perform an annual inventory count and retain documentation.

County Commissioner District 3: We will perform an annual inventory count and retain documentation. We will also work to ensure that all items are properly marked with county identification numbers.

**COTTON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County Sheriff: We will perform an annual inventory count and retain documentation. We will also work to ensure that all items are properly marked with county identification numbers.

County Treasurer: We will maintain documentation of the physical inventory in the future, and ensure that all items are properly marked with county identification numbers.

Court Clerk: We will maintain documentation of the physical inventory in the future.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation.



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