

OPERATIONAL AUDIT

COTTON COUNTY

For the fiscal year ended June 30, 2016



*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 OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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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 21, 2017

**TO THE CITIZENS OF
COTTON COUNTY, OKLAHOMA**

Transmitted herewith is the audit report of Cotton County for the fiscal year ended June 30, 2016.

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 "Gary A. Jones". The signature is written in a cursive style with a long, sweeping tail on the letter "s".

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

**COTTON COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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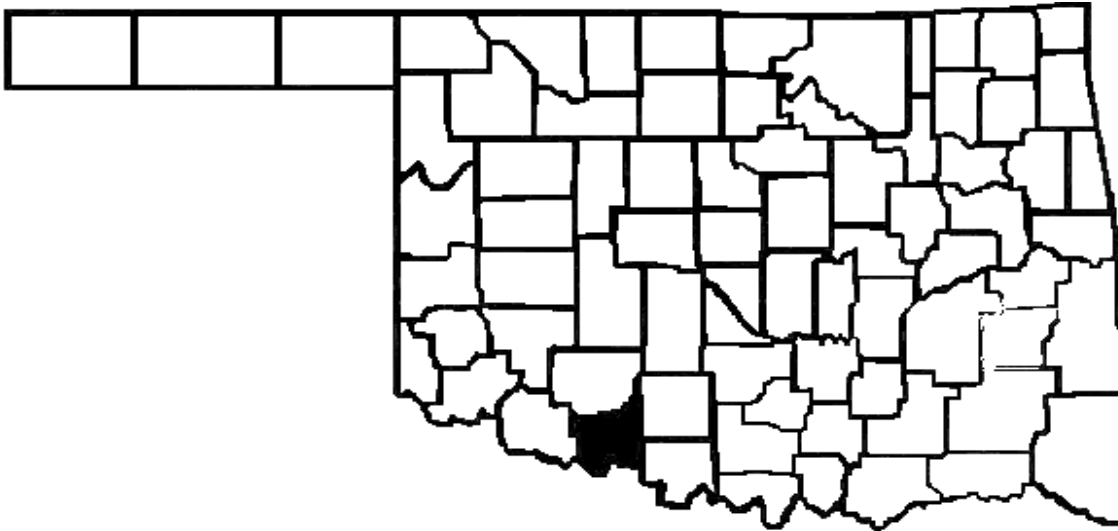
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**COTTON COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**



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 a 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, one of the largest rural electric cooperatives 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 additional county information, call the county clerk's office at 580/875-3026.

County Seat – Walters

Area – 641.94 Square Miles

County Population – 6,150
(2014 est.)

Farms – 500

Land in Farms – 399,818 Acres

Primary Source: Oklahoma Almanac 2015-2016

**COTTON COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Kent Simpson

County Treasurer

Tammy Morris

Court Clerk

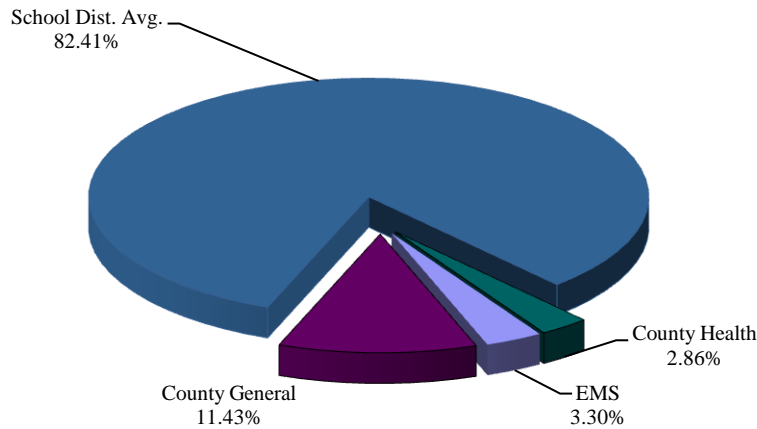
Janet Shively

District Attorney

Fred C. Smith

**COTTON COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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	9.04	12.49	4.16	67.31
EMS	3.00	Temple	I-101	36.62	5.23	13.03	12.49	4.16	71.53
		Big Pasture	I-333	36.43	5.20	12.32	14.44	4.16	72.55
		Comanche/Geronimo	Jt I-4	35.75	5.11	28.61	14.44	4.16	88.07
		Stephens/Empire	Jt I-21	36.54	5.22	20.67	12.49	4.16	79.08
		Jefferson/Waurika	Jt I-23	35.00	5.00	10.09	12.49	4.16	66.74
		Comanche/Chattanooga	Jt I-132	35.42	5.06	18.07	14.44	4.16	77.15
		Tillman/Grandfield	Jt I-249	36.38	5.20	16.99	14.44	4.16	77.17

**COTTON COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Sales Tax

Sales Tax of March 1, 1984

The voters of Cotton County approved a one percent 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, 2013

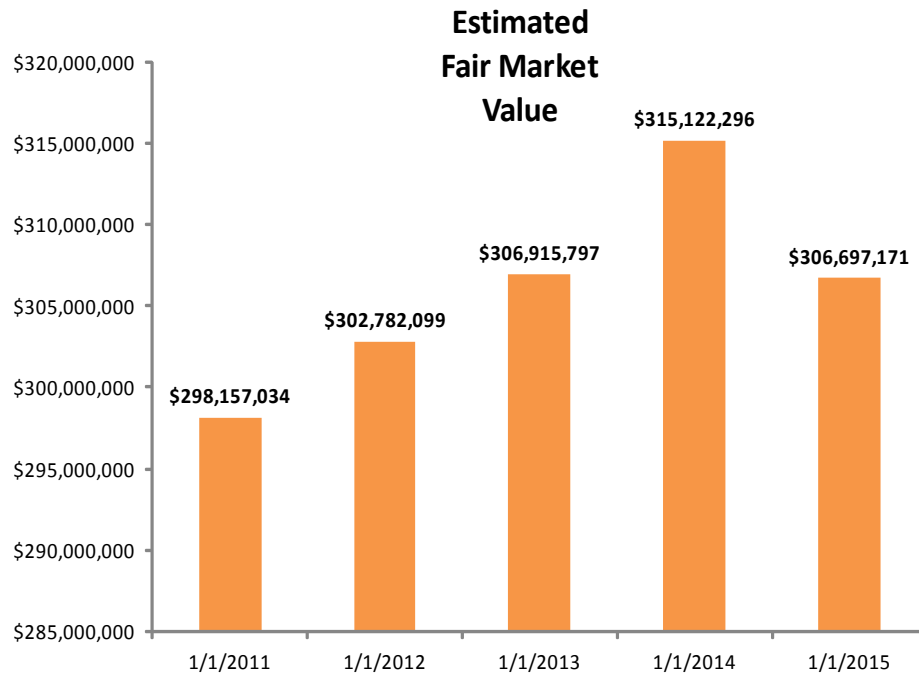
The voters of Cotton County approved a one-quarter of one cent sales tax through a special election on April 2, 2013, with proceeds designated to conduct Cotton County's portion of the cost for maintaining the Cotton County Cooperative Extension Center and became effective July 1, 2013 for the duration of five years. 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 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.

**COTTON COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

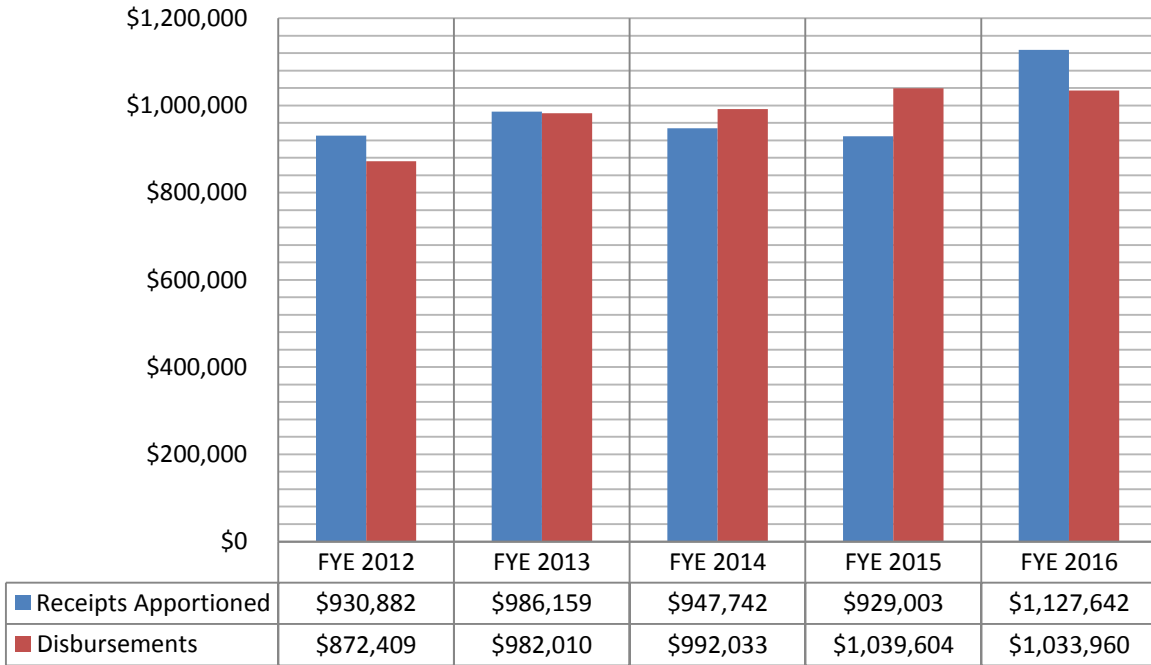
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2015	\$3,893,134	\$6,512,013	\$28,099,660	\$1,938,926	\$36,565,881	\$306,697,171
1/1/2014	\$3,909,214	\$5,705,502	\$29,458,372	\$1,910,862	\$37,162,226	\$315,122,296
1/1/2013	\$3,523,039	\$5,753,067	\$28,876,861	\$1,779,766	\$36,373,201	\$306,915,797
1/1/2012	\$3,336,488	\$6,243,954	\$28,340,982	\$1,774,549	\$36,146,875	\$302,782,099
1/1/2011	\$3,305,354	\$6,037,868	\$27,943,953	\$1,637,240	\$35,649,935	\$298,157,034



**COTTON COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

County General Fund

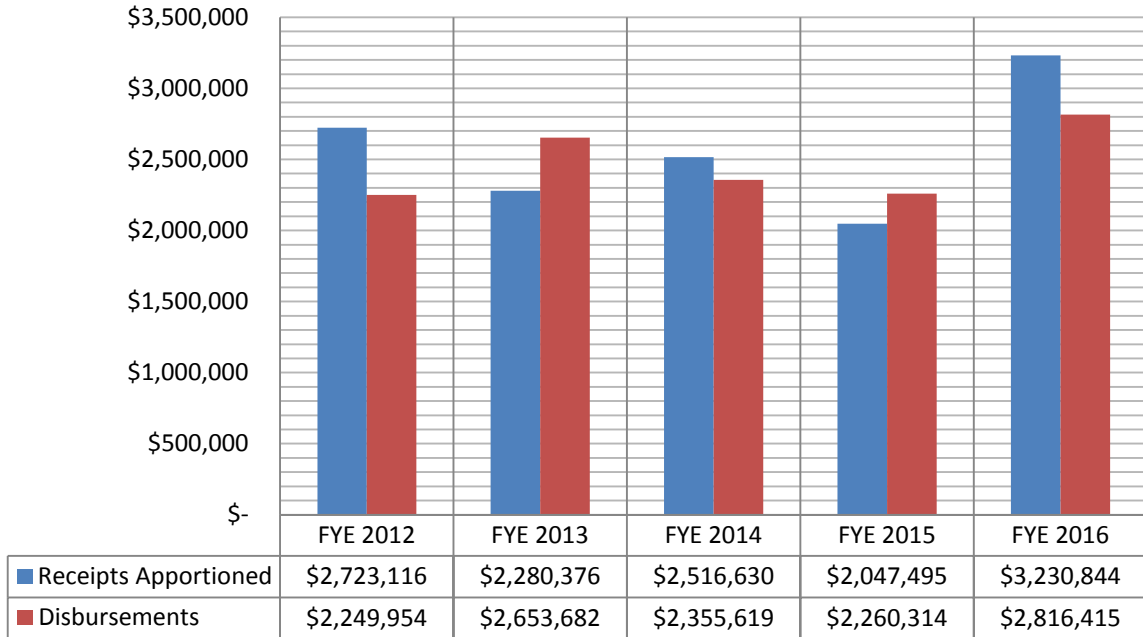
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also 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, 2016**

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.



**COTTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the Fiscal Year Ended June 30, 2016

	Beginning Cash Balances July 1, 2015	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2016
Combing Information:						
County Funds:						
County General Fund	\$ 225,915	\$ 1,127,642	\$ 127,297	\$ 45,052	\$ 1,033,960	\$ 401,842
County Highway Fund	1,852,944	3,230,844	235,002	205,098	2,816,415	2,297,277
County Health Department	149,063	102,553	-	-	114,809	136,807
Board of Prisoners	58,596	214,427	-	-	224,569	48,454
Emergency Management Grant	10,630	22,926	-	-	4,301	29,255
Free Fair Building	204	-	-	-	-	204
Sheriff Forfeiture	41	-	-	-	-	41
Sheriff D.A.R.E.	419	-	-	-	-	419
Assessor Visual Inspection	2,216	-	-	-	-	2,216
Assessor Revolving Fee	6,741	1,850	-	-	1,590	7,001
Sheriff Reserves	334	-	-	-	314	20
Treasurer Mortgage Tax Certification Fee	2,637	1,005	-	-	371	3,271
County Clerk Lien Fee	15,594	2,966	-	-	2,635	15,925
Glessner Fund	45,813	8,250	52	-	11,743	42,372
Sheriff Equipment and Training	42	-	-	-	-	42
Sheriff Donations	835	1,958	-	-	2,108	685
Free Fair Donations	4,917	11,124	-	-	9,374	6,667
Sheriff Drug Fund	24	-	-	-	-	24
County Clerk Record Preservation	14,191	7,055	-	-	7,087	14,159
Sheriff Service Fees	22,865	70,264	-	-	58,518	34,611
Resale Property	94,602	57,448	45,000	45,000	49,211	102,839
Free Fair Premiums	3,790	2,495	-	-	2,462	3,823
Sheriff Commissary	2,538	34,717	-	-	21,942	15,313
Emergency 911	194,675	188,951	-	-	57,784	325,842
Littering Reward Fund	1,362	181	-	-	-	1,543
Rural Economic Action Plan (REAP) Grant	-	109,505	-	-	109,425	80
Combined Total - All County Funds	\$ 2,710,988	\$ 5,196,161	\$ 407,351	\$ 295,150	\$ 4,528,618	\$ 3,490,732

Source: County Treasurer's Monthly Reports (presented for informational purposes)

**COTTON COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Description of County Funds

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 within the Presentation of Apportionments, Disbursements, and Cash Balances of County Funds:

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

County Highway Fund – 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.

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

Emergency Management Grant – accounts for funds received from the State of Oklahoma and disbursed for the operations of the Emergency Management office.

Free Fair Building – accounts for insurance reimbursements and other miscellaneous revenue and disbursements are to repair the Free Fair Building.

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

Sheriff D.A.R.E. – 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.

Assessor Visual Inspection – 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.

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

**COTTON COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Glessner Fund – accounts for the collection of rental revenue of farms donated to the County and disbursements for the needs of the County as determined by the Board of County Commissioners.

Sheriff Equipment and Training – accounts for the proceeds from sales of unclaimed property and disbursements are expended for training, uniforms, and equipment use in crime prevention and detection.

Sheriff Donations – accounts for monies received from donations and fundraisers and are expended for the operation of the Sheriff's office.

Free Fair Donations – 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 the collection of monies of the Sheriff's percentage of drug forfeitures and disbursements are used for drug prevention, education, and awareness.

County Clerk Record Preservation – accounts for fees collected for instruments filed in the County Clerk's office and disbursements as restricted by state statute for preservation of records.

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

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

Free Fair Premiums – 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 disbursements to purchase commissary goods from the vendor and can be used for maintenance and operation of the jail.

Emergency 911 – accounts for receipt of fees for the purpose of maintaining a 911 service.

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

Rural Economic Action Plan (REAP) Grant – accounts for state grant funds received for various projects and disbursements of funds as restricted by grant agreements.

**COTTON COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Interfund Transfers

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

- \$247 was transferred to the County General Fund from Estray Cattle Fund (a trust and agency fund) that was held for one year in accordance with state statute 4 O.S.§ 85.6(D).
- \$82,050 was transferred to the County General Fund from the County Highway Fund to help balance 2015-2016 County General Budget.
- \$235,002 was transferred to the County Highway Fund from the Emergency Transportation Revolving Fund (ETR) (a trust and agency fund). These transfers were required due to these monies being a loan for road and bridge projects in the County.
- \$123,048 was transferred to the Emergency Transportation Revolving Fund (ETR) (a trust and agency fund) from the County Highway Fund to repay part of the loan for road and bridge projects in the County.
- \$52 was transferred to the Glessner Fund from the County General Fund to reimburse an erroneous disbursement.
- \$45,000 was transferred to the County General Fund from the Resale Property Fund to cover non-payable warrants issued from the County General Fund.
- \$45,000 was transferred to the Resale Property Fund from the County General Fund to reimburse the loan to cover non-payable warrants after adequate ad valorem collections were apportioned to the County General Fund.

COTTON COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 225,914	\$ 225,915	\$ 1
Less: Prior Year Outstanding Warrants	(62,305)	(62,305)	-
Less: Prior Year Encumbrances	(4,442)	(4,036)	406
Beginning Cash Balances, Budgetary Basis	<u>159,167</u>	<u>159,574</u>	<u>407</u>
Receipts:			
Ad Valorem Taxes	364,045	406,460	42,415
Charges for Services	20,936	23,920	2,984
Intergovernmental Revenues	294,285	204,490	(89,795)
Sales Tax	302,341	475,344	173,003
Miscellaneous Revenues	21,017	17,428	(3,589)
Total Receipts, Budgetary Basis	<u>1,002,624</u>	<u>1,127,642</u>	<u>125,018</u>
Expenditures:			
County Sheriff	229,132	228,089	1,043
County Treasurer	75,531	75,459	72
County Commissioners OSU Extension	138,264	88,340	49,924
County Clerk	45,794	44,932	862
Court Clerk	69,324	69,322	2
County Assessor	72,288	71,644	644
Revaluation	87,217	79,420	7,797
General Government	99,213	50,849	48,364
Excise Equalization	2,850	2,351	499
County Election Expense	53,091	52,904	187
Insurance - Benefits	254,896	238,284	16,612
Civil Defense	29,791	29,579	212
County Audit Budget Account	3,850	3,850	-
Free Fair Budget Account	550	500	50
Total Expenditures, Budgetary Basis	<u>1,161,791</u>	<u>1,035,523</u>	<u>126,268</u>

Continued on next page

Source: County Estimate of Needs (presented for informational purposes)

COTTON COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund		
	Budget	Actual	Variance
Continued from previous page			
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	\$ -	251,693	\$ 251,693
Interfund Transfers:			
Transfer In		127,297	
Transfer Out		(45,052)	
Net Interfund Transfers		82,245	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		65	
Add: Current Year Outstanding Warrants		55,786	
Add: Current Year Encumbrances		12,053	
Ending Cash Balance		\$ 401,842	

Source: County Estimate of Needs (presented for informational purposes)

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, 2016

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 149,062	\$ 149,063	\$ 1
Less: Prior Year Outstanding Warrants	(142)	(142)	-
Less: Prior Year Encumbrances	(10,749)	(10,414)	335
Beginning Cash Balances, Budgetary Basis	138,171	138,507	336
Receipts:			
Ad Valorem Taxes	91,011	101,615	10,604
Charges for Services	-	726	726
Intergovernmental Revenues	726	204	(522)
Miscellaneous Revenues	-	8	8
Total Receipts, Budgetary Basis	91,737	102,553	10,816
Expenditures:			
Health and Welfare	229,908	118,990	110,918
Total Expenditures, Budgetary Basis	229,908	118,990	110,918
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	122,070	\$ 122,070
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		14,578	
Add: Current Year Outstanding Warrants		159	
Ending Cash Balance		\$ 136,807	

Source: County Estimate of Needs (presented for informational purposes)

**COTTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

This audit was conducted in response to 19 O.S. § 171, which requires the State Auditor and Inspector's Office to audit the books and accounts of county officers.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessment of materiality and risk for the fiscal year ended June 30, 2016. Our audit procedures included:

- Inquiries of appropriate personnel,
- Inspections of documents and records,
- Observations of the County's operations,
- Reconciling total apportionments, disbursements, and balances presented on the County's Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the fiscal year to the County Treasurer's and County Clerk's financial ledgers,
- Confirming third party confirmations to the financial ledgers,
- Selecting representative samples to determine disbursements were made in accordance with state statutes, approved ballots, and county purchasing procedures, and
- Gaining an understanding of the County's internal controls as it relates to each audit objective.

To ensure the samples were representative of the population and provided sufficient, appropriate evidence, both random sample and judgmental sample methodologies were used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

This report is 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.

**COTTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2016.

Conclusion: With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2016.

Objective 2: To determine the County's financial operations complied 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.

Conclusion: With respect to the items tested, the County financial operations did not comply 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. Further, internal controls should be strengthened regarding the appropriation of sales tax collections.

FINDINGS AND RECOMMENDATIONS

Finding 2016-5 - Inadequate Internal Controls and Noncompliance Over the Discrete Presentation of Sales Tax Activity (Repeat Finding)

Condition: Upon inquiry and observation of the recordkeeping process of collecting and expending county sales tax, the following was noted:

- The County sales tax was deposited into the County General Fund as specified by Title 68 O.S. § 1370E and identified as such as a revenue source. However, the funds were not discretely presented in a separate account within the County General Fund and therefore, specific expenditures made with sales tax funds could not be identified.
- There is no independent oversight of the calculation of sales tax collections that is presented for appropriation by the County Treasurer to the County Clerk.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with 68 O.S. § 1370E and Attorney General Opinions. Additionally, procedures have not been designed to have someone review the calculation of sales tax apportionments for accuracy and ensure compliance with the sales tax ballot.

**COTTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Effect of Condition: These conditions resulted in noncompliance with state statute and Attorney General Opinions and could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI also recommends that an employee recalculate the apportionment of sales tax collections that is presented for appropriation to the County Clerk. This employee should initial and date the recalculation as evidence of verification.

Further, OSAI recommends that the County sales tax apportioned to the County General Fund be accounted for in separate account so as to discretely present the expenditures. In addition, the sales tax should be expended in such a manner as to provide assurance that expenditures are made in accordance with purposes as specified by the sales tax ballot as outlined by Title 68 O.S. § 1370E.

Management Response:

Chairman, Board of County Commissioners: We have established County General Fund – Sales Tax accounts within the County General Fund, for fiscal year 2016-2017, to be designated for the purpose proposed by the sales tax ballot. Any remaining balance at the end of the fiscal year will remain in the designated account and expended as such in the next fiscal year.

Criteria: Title 68 O.S. § 1370E states in part, “Any sales tax which may be levied by a county shall be designated for a particular purpose...The County shall identify the purpose of the sales tax when it is presented to the voters pursuant to the provisions of subsection A of this section...the proceeds of any sales tax levied by a County shall be deposited in the General revenue or Sales Tax Revolving Fund of the County and shall be used only for the purpose for which such sales tax was designated...”

Further, AG opinion 2005 OK AG 23 dated 07/13/2005 states:

“3. Proceeds of a county sales tax voted for a specific purpose but placed in the county’s general fund must be accounted for as a discrete fund, and any surplus not needed for the stated purpose during one fiscal year must be transferred to the county budget for the next fiscal year, for the same specified purpose.”

Additionally, AG opinion 2014 OK AG 15 dated 10/31/2014 states:

“4. C. As the fiscal agent responsible for superintending the funds of Canadian County, the board of county commissioners is responsible to ensure that the sales tax proceeds are not intermingled and are used exclusively for the purpose expressed in the ballot measure and resolution. The board can direct that the funds be deposited in a dedicated revolving fund and not intermingled with other revenues. Okla. Const. art. X, § 19; [68 O.S. 2011, § 1370](#); [19 O.S. Supp. 2013, § 339](#); [19 O.S. 2011, § 345](#); *Cavin v. Bd. of County Comm’rs*, [1934 OK 245 ¶ 11](#), [33 P.2d 477](#), 479.”

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Objective 3: To determine the County’s financial operations complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

Conclusion: With respect to the items tested, the County complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

Objective 4: To determine whether the County’s internal controls provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records and financial operations complied with significant laws and regulations.

Conclusion: With respect to the items tested, the County’s internal controls do not provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records and financial operations did not comply with significant laws and regulations.

FINDINGS AND RECOMMENDATIONS

Finding 2016-4 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

Condition: Upon inquiry and observation of the County’s payroll disbursement process, we noted duties are not adequately segregated. The County Clerk’s deputy prints, stamps, and mails warrants for disbursements.

Furthermore, it was noted the County Clerk pays two deputies from the County Highway Fund.

The audit of five (5) claims, which included twenty-nine (29) timesheets, reflected the following:

- Five (5) instances were noted where timesheets were not signed by supervisors.
- Three (3) instances were noted where the payroll claims did not have adequate supporting documentation.

The audit of forty (40) disbursements reflected the following:

- Within the office of the County Clerk, deputies are allowed to utilize the signature stamps of the Chairman of the Board and the County Clerk.

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- One (1) instance was noted in which the disbursement was not properly encumbered.

The audit of nine (9) cash vouchers reflected the following:

- One (1) instance was noted in which the claim did not have proper supporting documentation attached; therefore, the appropriate amount could not be determined.

Cause of Condition: Policies and procedures have not been designed and implemented to strengthen internal controls over the disbursement process and ensure compliance with state statutes.

Effect of Condition: These conditions resulted in noncompliance with state statutes. Further, these conditions 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 accounting functions over disbursements can be adequately segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

OSAI further recommends signature stamps be used only by the person to whom it belongs and to be placed in a secure location.

In addition, OSAI recommends the deputies of the County Clerk be paid from the County General Fund and Highway funds only be expended in accordance with Title 69 O.S. § 1503(a).

Additionally, OSAI recommends all disbursements have proper supporting documentation, proper approval, and must be encumbered prior to receiving goods in accordance with 19 O.S. § 1505.

Management Response:

Chairman, 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 and/or services in accordance with Oklahoma Statutes. We will work toward having the owner of the signature stamp using the stamp and ensure that highway funds are expended in accordance with statute.

County Clerk: We are in the process of implementing review processes for payroll. We will work toward having the owner of the stamps using their own stamp. Further, we will work toward all claims having proper supporting documentation and paid from proper fund.

County Sheriff: We will work to make sure all documentation is retained for payroll claims and all timesheets are signed by an employee and a supervisor.

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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. Also, internal controls should be designed to analyze and check accuracy, completeness, and authorization of disbursement calculations and/or transactions.

Title 19 O.S. § 1505 prescribes the procedures for requisition, purchase, and receipt of supplies, material, and equipment.

Title 69 O.S. § 1503(a) states, “All monies raised for use on the county highways in each county, or apportioned to each county for road purposes, from any source, including all funds and monies derived by law, levy, taxation, or apportionment shall, unless otherwise provided by law, be placed in the county treasury in a fund to be known as the county highway fund, to be expended on order of the board of county commissioners on county highways as defined herein, or on state highways within their respective counties including the lighting thereof, if, in the judgment of the board of county commissioners, such expenditure would be just and equitable and for the best interest of the county.”

All Objectives:

The following findings are not specific to any objective, but are considered significant to all of the audit objectives.

Finding 2016-1 – Inadequate County-Wide Controls (Repeat Finding)

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

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

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

Recommendation: OSAI recommends that the County design and implement 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.

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Management Response:

Chairman, Board of County Commissioners: We are aware of the condition and will work toward assessing and identifying risks to design written county-wide controls.

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 met. 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.

Finding 2016-2 – Written Disaster Recovery Plan

Condition: A written Disaster Recovery Plan has not been designed for the offices of Court Clerk and County Sheriff.

Cause of Condition: Policies and 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. Further, this condition could also result in the loss of data, the unreliability of data, and increase the risk that the County may not recover from an emergency situation and/or disaster.

Recommendation: OSAI recommends that each office of the County prepare a Disaster Recovery Plan and file the plan with the County Clerk, in order to maintain operations in the event of a disaster.

Management Response:

Court Clerk: We will work toward the design of a Disaster Recovery Plan.

County Sheriff: We will work toward the design of a Disaster Recovery Plan.

**COTTON COUNTY
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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 met. 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.

Other Item(s) Noted:

Finding 2016-14 – Transfer of Funds (Repeat Finding)

Condition: The County transferred funds in the amount of \$82,050 from the County Highway Fund to the County General Fund to help balance the 2015-2016 County General Budget and the money was not repaid within the same fiscal year.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with state statutes.

Effect of Condition: This condition resulted in noncompliance with state statute.

Recommendation: OSAI recommends the County implement policies and procedures to ensure that operational transfers are paid back by the end of the fiscal year in which the funds were transferred.

Management Response:

Chairman, Board of County Commissioners: The County has repaid the funds to the County Highway Fund as of October 2016. In the future, the County will work towards paying back the funds that were transferred within that same fiscal year.

County Clerk: The County Clerk is aware of this condition and the funds have been repaid to the County Highway Fund as of October 2016.

Criteria: Title 68 O.S. § 3021 states in part, “...if at any time during the budget year it appears to the county treasurer that there is temporarily insufficient money in a particular fund to meet the requirements of appropriation in the fund, the excise board,... may temporarily transfer from one fund to any other fund with the permission of the county officer in charge of the fund that the money will be temporarily transferred from... Any funds temporarily transferred shall be repaid to the original fund from which they were transferred within the fiscal year that the funds were transferred.”

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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Cotton County
Board of County Commissioners
Cotton County Courthouse
Walters, Oklahoma 73572

Dear Chairman:

For the purpose of complying with 19 O.S. § 171 and 20 O.S. § 1312, we have performed statutory procedures regarding the following offices and departments for the fiscal year ended June 30, 2016:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1 and 69 O.S. § 645).
- All County Offices - Consumable Inventories procedures (19 O.S. § 1502 and 19 O.S. § 1504).
- Court Clerk procedures (20 O.S. § 1304 and 19 O.S. § 220).
- Inmate Trust Fund procedures (19 O.S. § 531 and 19 O.S. § 180.43).

Our statutory compliance engagement was limited to the procedures related to the statutes above and was less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on any basic financial statement of Cotton County.

Based on our procedures performed, we have presented our findings in the accompanying schedule.

This report is intended for the information and use of the management of the County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

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

March 20, 2017

**COTTON COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2016-11 – Inadequate Internal Controls and Noncompliance Over the Court Clerk Collection and Disbursement Processes (Repeat Finding)

Condition: Upon inquiry and the observation of records, with regards to the collection and disbursement processes of the Court Fund and the Court Clerk Revolving Fund, we noted the following weaknesses:

- One employee is responsible for the duties of requisitioning, issuing vouchers, signing vouchers, and mailing or distributing vouchers for the Court Fund and Court Clerk Revolving Fund disbursements.
- In the audit of twenty-five (25) Court Fund claims the following was reflected:
 - One (1) Court Fund claim did not have affidavit approval.
 - Eleven (11) Court Fund claims were not complete in regards to listing the account number; therefore, the expense category utilized could not be determined.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to segregation of duties over all aspects of the collection and disbursement processes of Court Fund and Court Clerk Fund Revolving.

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 management be aware of these conditions and determine how to implement internal controls over the expenditure process to safeguard assets and to properly segregate duties. OSAI further recommends implementing compensating procedures to mitigate the risks involved with a concentration of duties. Compensating procedures would include separating key processes and/or critical functions of the office, and having management review and approve the accounting functions. OSAI recommends the Court Clerk design and implement policies and procedures to ensure proper internal controls over the Court Fund and the Court Clerk Revolving Fund expenditure processes in compliance with 20 O.S. § 1304 and 19 O.S. § 220.

Management Response:

Court Clerk: We will work towards correcting these conditions.

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 Court Fund and Court Clerk Revolving Fund Expenditures.

Title 20 O.S. § 1304 provide guidance with regard to the expenditure process for the Court Fund.

**COTTON COUNTY, OKLAHOMA
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Title 19 O.S. § 220 states in part, “ ...Claims against the fund shall include only expenses incurred for the operation of the court clerk’s office in each county, and payment may be made after the claim is approved by the court clerk and either the district or the associate district judge of that county.

Finding 2016-12 – Inadequate Internal Controls and Noncompliance Over Inmate Trust Fund Checking Account and Sheriff Commissary Fund (Repeat Finding)

Condition: Upon inquiry and observation of the Inmate Trust Fund Checking Account and Sheriff Commissary Fund, one individual is primarily responsible for inputting inmate deposits into the Commissary system, preparing deposit slips, depositing with the financial institution, preparing checks, posting transactions to inmate records, and reconciling the Inmate Trust Fund Checking Account ledger to the bank statement at the end of each month.

Additionally, we noted:

- The County 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.
- In a test of 100% of disbursements, it was noted nine (9) checks were not issued in compliance with state statute.
- The Inmate Trust Fund Checking Account balance is not reconciled to the total of the inmates’ balances.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that internal controls are in place with regards to the Inmate Trust Fund Checking Account and Sheriff Commissary Fund.

Effect of Condition: These conditions resulted in noncompliance with state statutes. In addition, without proper accounting and safeguarding of the Inmate Trust Fund Checking Account, there is an increased risk of misappropriation of funds.

Recommendation: OSAI recommends management be aware of these conditions and realize that a concentration of duties and responsibilities is not desired from a control point of view. Management should provide segregation of duties so that no one employee is able to perform all accounting functions. Also, it is recommended that two people reconcile bank statements monthly to the inmate accounts, as well as the ledger, with evidence of review documented with initials and date.

Further, OSAI recommends disbursements be made in accordance with 19 O.S. § 531A and for the County Sheriff’s office to file an annual report for the Commissary Fund with the Board of County Commissioners by January 15th of each year in accordance with 19 O.S. § 180.43D.

Management Response:

County Sheriff: We will work towards implementing review processes as well as begin making a yearly report and having it approved by the Board of County Commissioners. As to the disbursements in question, the checks were written prior to the previous audit and the condition has now been corrected.

**COTTON COUNTY, OKLAHOMA
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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 transactions. To help ensure a proper accounting of funds, the duties of processing and authorizing should be segregated. Also, internal controls should be designed to analyze and check accuracy, completeness, and authorization of disbursement calculations and/or transactions.

Title 19 O.S. § 531(A) states in part, “The county sheriff may establish a checking account, to be designated the “Inmate Trust Fund 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.”

Title 19 O.S. § 180.43(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.”



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