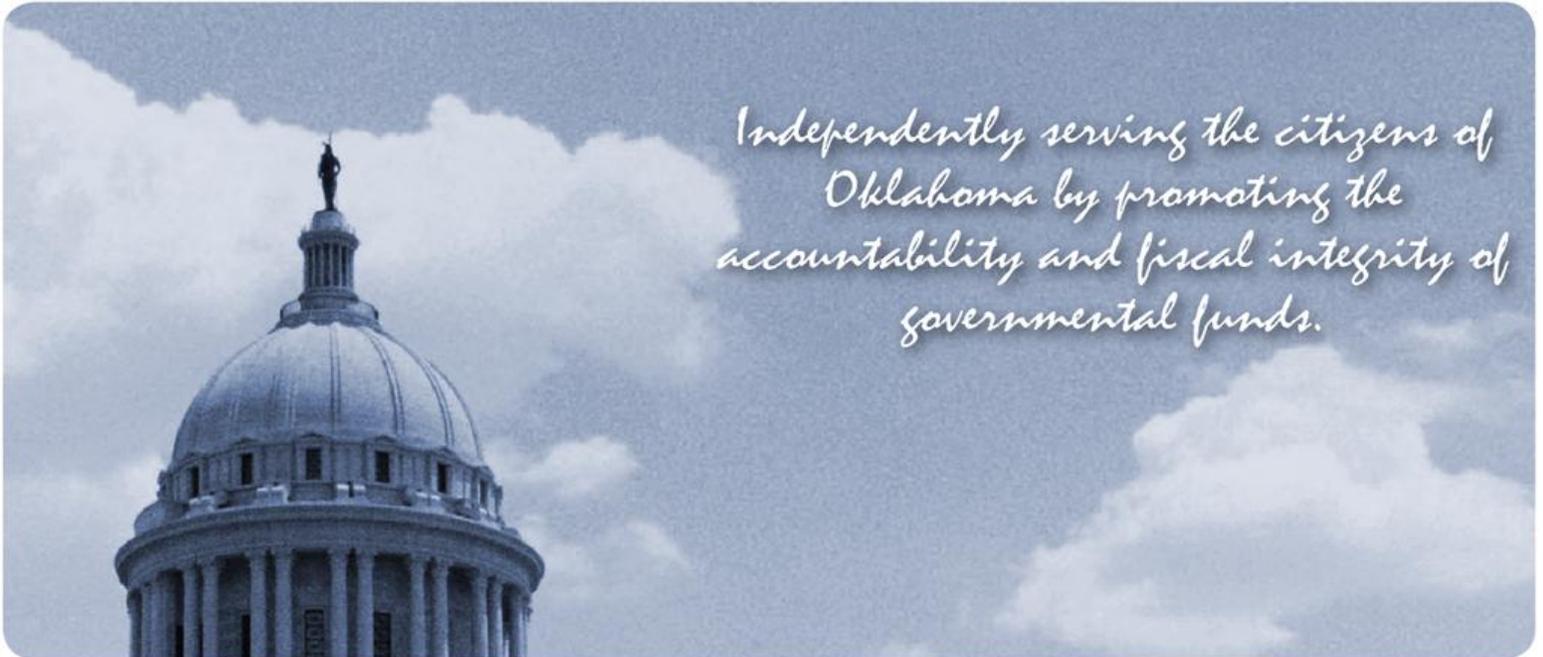


OPERATIONAL AUDIT

# COTTON COUNTY

For the July 1, 2010 through June 30, 2011



*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 PERIOD JULY 1, 2010 THROUGH JUNE 30, 2011**

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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 report of Cotton County for the period July 1, 2010 through June 30, 2011.

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". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

**BACKGROUND**

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

**COUNTY OFFICIALS**

- Debbie Sturdivant ..... County Assessor
- Nikki Vardell .....County Clerk
- Edward Eschiti ..... County Commissioner District 1
- Chris Lipscomb..... County Commissioner District 2
- Greg Powell ..... County Commissioner District 3
- Paul Jeffrey ..... County Sheriff
- Tammy Morris ..... County Treasurer
- Debbie Hodnefield ..... Court Clerk

**COTTON COUNTY  
OPERATIONAL AUDIT**

**Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for FY 2011**

	Beginning Cash Balance July 1, 2010	Receipts Apportioned	Disbursements	Ending Cash Balance June 30, 2011
Combining Information:				
County General Fund	\$ 210,118	\$ 880,336	\$ 850,814	\$ 239,640
County Highway	1,503,775	2,775,492	2,398,791	1,880,476
County Health Department	108,160	90,363	67,928	130,595
Sheriff Service Fees	15,705	62,889	56,512	22,082
Sheriff Board of Prisoners	50,585	222,753	228,185	45,153
Resale Property	33,872	33,284	33,848	33,308
Sheriff Commissary	5,587	16,052	16,643	4,996
Free Fair Premiums	4,901	2,431	1,909	5,423
REAP Grant	63	-	-	63
CDBG	19	4,420	2,497	1,942
Remaining Aggregate	104,073	45,743	41,718	108,098
<b>Combined Total - All County Funds</b>	<b>\$ 2,036,858</b>	<b>\$ 4,133,763</b>	<b>\$ 3,698,845</b>	<b>\$ 2,471,776</b>

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

**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.

The audit period covered was July 1, 2010 through June 30, 2011.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

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. 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.

**Objective 1:** To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2011.

**Conclusion:** With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances appear to be accurately presented on the County Treasurer's monthly reports. However, internal controls over the monthly reports and segregation of duties within the Treasurer's office should be strengthened.

**Methodology:** To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of accurately presenting the receipts apportioned, disbursements, and cash balances on the County Treasurer's monthly reports through discussions with the County Treasurer, observation, and review of documents.
- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports:
  - Reconciled Treasurer's receipts to amounts apportioned on the County Treasurer's monthly reports.
  - Reconciled the County Clerk's warrants issued to disbursements paid by the County Treasurer.
  - Re-performed all bank reconciliations at June 30, 2011, to determine that all reconciling items were valid, and ending balances on the general ledger agreed to the ending balances reflected on the Treasurer's monthly reports.

**Finding: Inadequate Internal Controls Over the County Treasurer's Monthly Reports and Lack of Segregation of Duties in the County Treasurer's Office**

**Condition:** Upon inquiry and observation of the recordkeeping process, the following was noted:

- There was no evidence of a review of bank reconciliations being performed.
- There was no segregation of duties in the daily report process. The same employee issues receipts, reconciles, and compiles the daily reports.
- There was no independent oversight of the accuracy of the compilation of the County Treasurer's monthly reports. The County Treasurer prepares the monthly report then verifies the reports to the general ledger.
- There was no documentation that reconciliation of fund balances between the County Treasurer's office and the County Clerk's office were reviewed and approved by someone other than the preparer.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure accuracy of monthly reports.

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

**Recommendation:** OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. Such controls may include independent verification of accuracy of reports.

**Management Response:**

**County Treasurer:** We will be putting procedures in place to have reports and reconciliations verified by more than one person. We do reconcile funds with the County Clerk, but do not sign off on them. We will also be putting procedures in place for this.

**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.

<b>Objective 2:</b> To determine the County's financial operations complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.
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**Conclusion:** With respect to the days tested, the County complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments. However, internal controls over the collateral securities or instruments should be strengthened.

**Methodology:** To accomplish our objectives, we performed the following:

- Gained an understanding of the internal controls related to pledged collateral through discussions with the County Treasurer, observation, and review of ledgers and documents.
- Selected the two highest balance days for each month at all banks from July 1, 2010 through June 30, 2011, to determine if the County's funds were adequately secured as required by 62 O.S. § 517.4.

**Finding: Inadequate Internal Controls and Noncompliance Over Pledged Collateral**

**Condition:** Upon inquiry of County personnel, observation of pledged collateral documents, and the test of seventy-nine days deposits held at banks, we noted the following weaknesses:

- The County Treasurer did not document that pledged collateral was monitored on a daily basis to ensure that County deposits were secure.
- Significant controls have not been adequately implemented to ensure daily bank balances are sufficiently collateralized.
- The County Treasurer did not maintain documentation of pledged collateral for December 2010, and January 2011.

**Cause of Condition:** Procedures have not been designed, implemented, or documented to ensure that county funds are adequately secured with pledged collateral.

**Effect of Condition:** Failure to monitor pledged collateral amounts and maintain documentation could result in unsecured county funds and could result in possible loss of county funds.

**Recommendation:** OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that county funds are adequately secured. Further, OSAI recommends the County Treasurer maintain a ledger of daily bank balances and compare these balances to the market value of pledged collateral to ensure that county funds are adequately secured.

**Management Response:**

**County Treasurer:** We will establish procedures to monitor pledged collateral on a daily basis and to maintain pledge collateral documentation.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure that County funds are properly secured, the County Treasurer should maintain a ledger to monitor pledged securities on a daily basis to ensure that the County is in compliance with 62 O.S. § 517.4.

<b>Objective 3:</b> 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.
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**Conclusion:** With respect to items tested, the County's 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.

**Methodology:** To accomplish our objectives, we performed the following:

- Gained an understanding of the internal control process of receipting, apportioning, and disbursing sales tax collections through discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
  - Reviewed the sales tax ballot to determine designation and purpose of sales tax collections.
  - Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
  - Selected a sample of nineteen purchase orders issued for the OSU Extension and three purchase orders issued for Free Fair/Ag Arena/Expo Center Fund for the period of July 1,

2010 through June 30, 2011, to determine the expenditures made were for the purposes designated on sales tax ballot as required by 68 O.S. § 1370E.

**Finding: Inadequate Internal Controls Over Sales Tax Apportionments and Appropriations**

**Condition:** Upon inquiry and observation of the recordkeeping process of apportioning sales tax collections, it was noted that there is no evidence of independent oversight of the calculation of sales tax collections that is appropriated.

**Cause of Condition:** Procedures have not been designed to document and retain evidence of procedures performed to ensure sales tax appropriations are accurately apportioned to the proper fund.

**Effect of Condition:** This condition could result in sales tax funds being incorrectly calculated and apportioned to incorrect funds and not expended in accordance with sales tax ballot(s).

**Recommendation:** OSAI recommends the County implement internal control procedures for the accurate reporting and apportioning of sales tax revenue, including an independent verification of the calculation of the sales tax apportionment.

**Management Response:**

**BOCC:** We will review and verify sales tax collections and appropriations to amount being budgeted each year and maintain the documentation of the review.

**Criteria:** Accountability and stewardship are overall goals in evaluating management's accounting of funds. Internal controls should be designed to analyze and check accuracy and completeness. To help ensure proper accounting of funds, the duties of allocating, and apportioning sales tax should be segregated and reviewed by an independent party.

**Finding: Noncompliance Over Sales Tax Appropriations**

**Condition:** For the period of July 1, 2010 through June 30, 2011, the County appropriated \$83,213.58 for the OSU Extension, but actual collections and prior years ending balance was \$93,286.79. The excess OSU Extension collections of \$10,073.21 were not appropriated in accordance with the sales tax ballot(s). The County appropriated \$325.00 for the Free Fair/Ag Arena/Expo Center, but actual collections and prior years ending balance was \$7,701.97. The excess Free Fair/Ag Arena/Expo Center collections of \$7,376.97 were not appropriated in accordance with the sales tax ballot(s).

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

**Effect of Condition:** These conditions resulted in noncompliance with state statute. Sales tax was not apportioned and appropriated in accordance with sales tax ballot(s).

**Recommendation:** OSAI recommends that the excess sales tax collections be 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:** Title 68 O.S. § 1370E, 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.

Objective 4: 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. However, internal controls regarding the application of certified levies to the tax rolls and the apportionment and distribution of ad valorem tax collections should be strengthened.

**Methodology:** To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of apportioning and distributing ad valorem tax collections, which included discussions with County personnel, observation and review of documents.
- Tested compliance of the significant law, which included the following:
  - Compared the certified levies for the audit periods to the computer system to determine the County Treasurer applied the certified levies, as fixed by the Excise Board of the County, to the tax rolls.
  - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

**Finding: Inadequate Internal Controls Over Certified Ad Valorem Tax Levies and Ad Valorem Tax Apportionment**

**Condition:** Upon inquiry and observation of the ad valorem tax apportionment process, the following was noted:

- The County Treasurer manually inputs the certified ad valorem tax levies into the system with no evidence of independent oversight of the accuracy of this process.
- The County Treasurer manually inputs the monthly ad valorem tax apportionments into the system with no evidence of independent oversight of the accuracy of this process.

**Cause of Condition:** Procedures have not been designed to document and retain evidence of procedures performed to ensure ad valorem tax levies are accurately entered into the system, and ad valorem tax apportionments are distributed correctly.

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

**Recommendation:** OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that certified ad valorem tax levies are reviewed by someone independent of the process and the ad valorem tax collections are apportioned and distributed correctly among the different funds to which they belong. Such controls may include independent verification of accuracy of reports.

**Management's Response:**

**County Treasurer:** When new ad valorem taxes are entered into the computer, someone else will initial the certified levies. Also, documentation of the independent review will be maintained that ad valorem taxes are apportioned and distributed correctly among the different funds.

**Criteria:** Accountability and stewardship are overall goals in evaluating management's accounting of funds. Internal controls should be designed to analyze and check accuracy and completeness. To help ensure proper accounting of funds, the duties of allocating and apportioning ad valorem tax should be segregated or reviewed by an independent party.

<p>Objective 5: To determine the County's financial operations complied with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines procedures for expending county funds.</p>
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**Conclusion:** With respect to the items tested, the County's financial operations complied with 19 O.S. § 1505F. However, the County's financial operations did not comply with 19 O.S. § 1505C and 19 O.S. § 1505E, which outlines procedures for expending county funds.

**Methodology:** To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of encumbering purchase orders, authorization of payment of purchase orders, and documenting goods and services received, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, Title 19 O.S. § 1505, and determined the following:  
19 O.S. § 1505C:
  - Purchase orders were issued in sequential order.
  - Funds were timely encumbered.
  - Purchase orders were signed by purchasing agent and certified by County Clerk.

19 O.S. § 1505E:

- Receiving agent signed receiving report.
- Original invoice was attached.
- Non-collusion affidavit for purchases of \$25,000 or more were obtained.

19 O.S. § 1505F:

- The Board of County Commissioners (BOCC) approved and signed the purchase order.

**Finding: Inadequate Internal Controls and Noncompliance Over the Expenditure Process**

**Condition:** Upon inquiry and observation of the expenditure process, the following was noted:

- The County Clerk reconciles the appropriation ledger and warrant register with the County Treasurer's records on a monthly basis; however, there is no verification of an independent review maintained.
- Forty purchase orders were randomly selected for the period of July 1, 2010 through June 30, 2011, to determine the County's financial operations complied with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines procedures for expending county funds. The following exceptions were noted:
  - Five purchase orders did not have completed receiving reports attached.
  - One purchase order did not have an itemized invoice attached.
  - One purchase order was not timely encumbered.

**Cause of Condition:** Policies and procedures have not been designed to address statutory compliance of expenditures.

**Effect of Condition:** These conditions resulted in noncompliance with state statutes and could result in unrecorded transactions, misstated financial reports, or clerical errors that are not detected in a timely manner.

**Recommendation:** OSAI recommends the County implement a system of internal controls over the expenditure process. Such controls should include documentation of an independent verification of the accuracy of components necessary to initiate and authorize expenditures. Additionally, purchase orders should be encumbered prior to receiving the goods and/or services, have itemized invoices, and receiving reports attached.

**Management Response:**

**County Clerk:** I agree with the findings of the auditor. Since I have limited staff in my office, it can get overlooked. I hope to put in place a receiving report dual control. When the receiving report is turned in to the purchasing officer, she shall check to make sure everything is filled out properly and initial the receiving report; then it will be verified and initialed again when the receiving report is attached to the purchase order.

Documentation of an independent review of all reconciliations will be maintained.

**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.

Effective internal controls require that management properly implement procedures to ensure that purchases comply with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F.

**Objective 6:** To determine the County's financial operations complied with 19 O.S. § 1505B, which requires county purchases in excess of \$10,000 be competitively bid.

**Conclusion:** With respect to the items tested, the County's financial operations complied with 19 O.S. § 1505B, which requires county purchases in excess of \$10,000 be competitively bid. However, internal controls over the competitive bid process should be strengthened.

**Methodology:** To accomplish our objective we performed the following:

- Gained an understanding of the internal controls related to the process of competitively bidding purchases in excess of \$10,000, which included discussions with County personnel, observation and review of documents.
- Selected a random sample of five purchases in excess of \$10,000 and determined that the County followed statute regarding public notice, handling of unopened bids, awarding bid to best bidder, recording appropriate information in BOCC minutes and notification to successful bidders.

**Finding: Inadequate Internal Controls Over the Competitive Bidding Process**

**Condition:** Upon discussion with the County Clerk, it was determined that the County Clerk does review the encumbrances for the items requiring bids and reviews the bid packets prior to being mailed to vendors to ensure all documents are included in the packets. However, there is no independent verification by initialing and dating the documents that this process is being performed.

**Cause of Condition:** Policies and procedures have not been designed to address internal controls over the competitive bidding process.

**Effect of Condition:** These conditions could result in noncompliance with state statute.

**Recommendation:** OSAI recommends the County implement a system of internal controls over the bidding process to include documentation of the review of requisition and bid packets prior to the encumbrance of funds.

**Management Response:**

**County Clerk:** Expenditures over \$10,000 will be verified by another deputy in my office. The verification will include:

- Did the purchase need to be bid?
- Is it on state contract?

After the verification, both employees will initial the purchase order.

**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 advertisement of bids, mailing requests for bids, receiving and holding bids for opening and performing the process for bid payment should be segregated.

**Objective 7:** To determine the County's financial operations complied with 19 O.S. § 180.74 and § 180.75 regarding amounts allowed for officers' salaries.

**Conclusion:** With respect to the items tested, the County's financial operations complied with 19 O.S. § 180.74 and § 180.75 regarding amounts allowed for officers' salaries. However, internal controls over the payroll expenditure process should be strengthened.

**Methodology:** To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of determining amounts allowed for officers' salaries, which included discussions with County personnel, observation, and review of documents related to:
  - The process of determining the amounts allowed for officers' salaries.
  - The process of reviewing and approving the calculation of officers' salaries.
  - The process for the payment and recording of salaries and related payroll expenses.
- Tested compliance of the significant law, which included the following:
  - Recalculated the maximum amount allowed for officers' salaries as set forth in 19 O.S. § 180.74 and § 180.75.
  - Reviewed the salaries of County officials to ensure that amounts paid did not exceed statutory limits.

**Finding: Inadequate Internal Controls Over Calculation of Officers' Salaries**

**Condition:** It was determined through discussions with County personnel, observation, and review of documents that the County does not have procedures in place to ensure that salaries are calculated in accordance with state statutes.

**Cause of Condition:** Procedures have not been designed to ensure compliance with state statutes.

**Effect of Condition:** This condition could result in noncompliance with salary limitations; particularly in the event of fluctuations in the ad valorem tax revenue and population of the County that determines salary limitations.

**Recommendation:** OSAI recommends the County implement procedures to ensure that the amounts paid to the County officers, does not exceed the amounts allowed. These procedures should include calculating the maximum amount allowable and having an independent review of those calculations.

**Management Response:**

**BOCC:** Beginning each new fiscal year, as per state statutes, Cotton County will calculate the maximum allowable salaries of county officers; these will be recorded and maintained.

**County Clerk:** In the future, input of officers' salaries will be verified and signed by another employee, presented to the BOCC (included on the agenda) and County officials will be required to sign a copy of the annual salary calculations to document their review.

**Criteria:** Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse.

**Finding: Inadequate Internal Controls Regarding Concentration of Duties Over the Payroll Process**

**Condition:** It was determined through discussions with County personnel, observation, and review of documents that the payroll process is not adequately segregated. The County Clerk enters new employees, inputs payroll information into the system, and creates state and federal tax reports.

**Cause of Condition:** Policies and procedures have not been designed to address segregation of duties over the payroll process.

**Effect of Condition:** An opportunity for errors and misappropriation of county assets exists when one employee is responsible for all duties of the payroll process.

**Recommendation:** OSAI recommends the following key accounting functions of the payroll process be adequately segregated:

- Entering information for new employees in the County payroll system and maintaining personnel files.
- Reviewing time records and preparing payroll.
- Distributing payroll warrants to individuals.

**Management Response:**

**County Clerk:** We will work on segregating payroll processes.

**Criteria:** Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse.

**Objective 8:** To determine the County’s financial operations complied with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by his department.

**Conclusion:** With respect to the items tested, the County’s financial operations did not comply with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by his department.

**Methodology:** To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of maintaining a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by a department, which included discussions with County personnel, observation, and review of documents.
- Tested a random sample of fourteen consumable records to determine that the district barns are maintaining accurate records and they agree to a physical count of records.

**Finding: Inadequate Internal Controls and Noncompliance Over Consumable Inventories**

**Condition:** Upon inquiry of District personnel and observation of consumable inventory records, the following weaknesses were noted:

- **District 1, 2, & 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’

**Effect of Condition:** 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 consumable inventories.

**Recommendation:** OSAI recommends the County adopt policies and procedures to implement a system of internal controls over the consumable inventory records. Such controls may include an independent verification of the inventory counts and a separation of duties between maintaining, updating, and verifying the accuracy of records.

**Management Response:**

**BOCC:** The BOCC will work to implement a system of internal controls over the consumable inventory records and will implement compensating controls to mitigate the risks involved with a concentration of duties.

**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.

<p>Objective 9: To determine the County's financial operations complied with 19 O.S. § 178.1 and 69 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of" the County.</p>
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**Conclusion:** With respect to the items tested, the County did not comply with 19 O.S. § 178.1 and 69 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of" the County.

**Methodology:** To accomplish our objective, we performed the following:

- Gained and understanding of internal controls related to the fixed assets inventory process through discussions with County personnel, observation, and review of documents.
- Tested a random sample of sixty-eight (68) fixed assets to verify that the items were properly marked with county identification numbers and "Property of Cotton County" as required by 69 O.S. § 645.
- Tested 100% of the County Sheriff's firearms and firearm accessories to verify items were properly accounted for on County Sheriff's inventory records.

**Finding: Inadequate Internal Controls Over Fixed Assets and Noncompliance with State Statute**

**Condition:** Upon inquiry of County personnel, observation, and review of documents, regarding fixed assets, the following weaknesses were noted:

- Periodic physical inventories were not documented for all offices.

**COTTON COUNTY  
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When visually verifying inventory items, the following items were not visibly marked with county identification numbers:

County Identification 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
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:** Policies and procedures have not been designed to ensure compliance with the statute regarding the identification and accounting of fixed assets and the statute regarding documenting annual fixed assets verifications.

**Effect of Condition:** These conditions resulted in noncompliance with state statute and could result in inaccurate or incomplete inventory records.

**Recommendation:** OSAI recommends that management implement internal controls to ensure compliance with 19 O.S. § 178.1. These controls would include that all offices:

- Perform an annual inventory count.
- Retain documentation to verify the physical inventory counts are performed.
- The inventory count should be performed by someone other than the receiving officer or inventory officer.

OSAI further recommends the County comply with 69 O.S. § 645 and visibly mark each county-owned automobile, truck, road machinery and equipment “PROPERTY OF (name of county) COUNTY.”

**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.

**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:** Effective internal controls include management design procedures to ensure that all inventory records are maintained, periodic inventory verifications are performed, and that equipment be clearly and visibly marked “Property of” the County to comply with 19 O.S. § 178.1 and 69 O.S. § 645.

**COTTON COUNTY  
OPERATIONAL AUDIT**

**Finding: Inadequate Internal Controls Over County Sheriff's Fixed Assets**

**Condition:** Based on inquiry and observation of the County Sheriff's fixed asset records, it was noted there was inadequate internal controls to ensure the accuracy of inventory records. The following firearms/accessories could not be located:

Count	Inv #	Make	Description	Serial Number
1	606-017	High Standard	12 Gauge Pump	PO2442
2	606-018	High Standard	Riot Gun w/Scabbard	3206581
3	606-021	Remington	12 Gauge Model 870	T449740V
4	606-022	Remington	12 Gauge Model 870	W462018M
5	606-026	High Standard	.22 Auto Pistol	83455
6	606-030	Smith and Wesson	.357 Pistol	AAC5982
7	606-031	Snake Charmer	.410 Shotgun	82815
8	606-032	Raven	.25 Auto Pistol	1553958
9	606-038	Ruger	.357 Revolver	160-63562
10	606-035	Remington	12 Gauge Model 870	D488693M
11	606-036	Remington	12 Gauge Model 870	D418911M
12	606-037	Remington	12 Gauge Model 870	D498576M
13	606-038	Remington	12 Gauge Model 870	D278935M
14	606-039	Remington	12 Gauge Model 870	D418918M
15	606-042	Ruger	.357 2" Barrel	S105
16	606-053	Remington	12 Gauge Sportsman	186820V
17	606-058	Winchester	30-30 Model 94	2554094
18	606-059	Weatherby	.22 Caliber	J31305
19	606-063	No Description	PR24 (Nightstick)	Not available
20	606-064	Smith and Wesson	9mm 439 w/2 mags	A816180
21	606-072	Sig	9mm Model P230	S141433
22	606-076	Colt	.223 AR15	80972
23	606-093	Waffenfabrik	9mm Mauser	452167
24	606-094	Davenport Arms	12 Gauge	Not Available
25	606-105	Rossi	.38 Caliber	D668881
26	606-115	MAC	90 Sporter	9389168
27	606-119	Rossi	.22 Rifle	G82874
28	606-122	Raven	.25 Caliber	1587213
29	606-123	Ruger	.25 Pistol	213-2047
30	606-139	Rossi	.38 Caliber	133795
31	606-141	Llama	.22 Airlite	246012
32	606-142	Llama	.380	916360
33	606-143	Echasa	7.65 Mod Fast	64347
34	606-146	Derringer	.32 Caliber	205068
35	606-148	Raven Arms	.25 Pistol	1843064
36	606-150	Ruger	.22 Carbine	122-59593

**COTTON COUNTY  
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Count	Inv #	Make	Description	Serial Number
37	606-176	FLA	.25 Caliber	81648
38	606-179	Old Timer	No Description	Not Available
39	606-182	FLA	.22 Caliber	885
40	606-204	Winchester	12Gauge Sawed Off	C6588
41	606-264	Stevens	Model 95	Not Available

**Cause of Condition:** Policies and procedures over County Sheriff’s firearm inventory have not been designed and implemented

**Effect of Condition:** This condition resulted in inaccurate and incomplete inventory records.

**Recommendation:** OSAI recommends the County Sheriff adopt policies and procedures to implement a system of internal controls over the fixed asset inventory records. Such internal controls may include independent verification of the periodic inventory counts and a separation of duties between maintaining, updating, and verifying the accuracy of records.

**Management Response:**

**County Sheriff:** These weapons were missing when I took office. The list of firearms and accessories that could not be located will be turned over to the District Attorney. I am in the process of implementing a system of internal controls, which includes a weapons log and periodic verification of all fixed assets.

**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 constitutes 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.

Objective 10: To determine the County’s financial operations complied with 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office.

**Conclusion:** With respect to the days tested and items reconciled, the County’s financial operations did not comply with 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office. Further, internal controls regarding the collections and depositing process should be strengthened in all county offices.

**Methodology:** To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of officers depositing daily in the official depository all collections received under the color of office, which included discussions with County personnel, observation, and review of documents.

- Tested compliance of the significant law with 19 O.S. § 682, by selecting a sample of five consecutive daily deposits from each office with an official depository account to determine:
  - Official depository receipts agreed to the amounts recorded on the deposit.
  - Receipts were issued in sequential order.
  - Deposits were made daily with the County Treasurer’s office as prescribed by the statute.

**Finding: Inadequate Internal Controls Over Official Depository Receipts and Deposits and Noncompliance with State Statute**

**Condition:** Upon inquiry and review of the receipting and depositing process in each office, we noted the following weaknesses with regard to receipting and depositing official depository collections:

- There is inadequate segregation of duties relating to the issuance of receipts, preparation and delivery of deposits, as well as reconciliation of monies received to official depository accounts. All employees in all offices issue receipts, prepare deposits, deliver deposits to the County Treasurer, and participate in reconciliations.
- The County Clerk and County Treasurer each maintain one cash drawer. All employees in each of these offices have unrestricted access and participate in balancing the cash drawer.

Additionally, our test of receipts for five consecutive daily deposits in each office reflected the following noncompliance with regard to the County Treasurer’s and County Sheriff’s official depository accounts:

- **County Treasurer’s office:** Eight instances were noted in which receipts were not issued for collections deposited.
- **County Sheriff’s office:** Two instances were noted in which receipts were not issued for collections deposited and twenty-two instances of daily deposits not being made were noted.

**Cause of Condition:** Policies and procedures have not been designed and implemented to address the lack of segregation of duties over the officers’ depository process, to ensure that receipts are issued for all collections received, or to ensure that all collections are deposited daily.

**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 that are not detected in a timely manner.

**Recommendation:** OSAI recommends that management be made 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. OSAI further recommends that management take steps to ensure deposits are made as required, in a timely manner.

**Management Response:**

**County Treasurer:** I have been made aware of the segregation of duties. Receipts are normally issued for all monies received, I believe the seven instances noted were the result of an oversight; however, I am putting procedures in place to correct this. The currency in the cash drawer is counted by one employee and verified by another employee each day and a currency log is maintained.

**County Sheriff:** We will implement compensating controls to mitigate the risks involved with a concentration of duties. This will include issuing receipts for all monies collected under color of office, making daily deposits, maintaining documentation where receipts are reconciled to deposits, and an independent verification of all reconciliations.

**County Clerk:** The \$100.00 allowed for our cash drawer is counted and initialed by another employee as soon as the deposit is generated. I feel this is a dual control because all money is accounted for by two employees. The cash drawer is located in a drawer at the front counter that does not have a lock. At the end of each day, the cash is moved to a locked location.

**County Assessor:** After talking with the auditors, we are in the process of making changes in how we manage our receipts, deposits, and reconciliations for better accountability.

**Auditor Response:** The duties regarding the collection process in the County Clerk's office are not adequately segregated.

**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 receipting, reconciling cash drawer, preparing and making deposits, and reconciling account balance should be segregated.

<b>Objective 11:</b>	To determine the County Court Clerk's financial operations complied with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending Court Clerk Revolving Fund monies and Court Fund monies, respectively.
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**Conclusion:** With respect to items tested, the County complied with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending Court Clerk Revolving Fund monies and Court Fund monies, respectively. However, internal controls over the Court Clerk Revolving Fund and the Court Fund should be strengthened.

**Methodology:** To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to expending Court Clerk Revolving Fund monies and Court Fund monies which included discussions with County personnel, observation, and review of documents.
- Tested compliance with 19 O.S. § 220 for the Court Clerk Revolving Fund, which included the following:

- Randomly selected 7 claims (10%) from the Court Clerk Revolving Fund and verified the following:
  - Expenditures were made for the lawful operation of the office.
  - Claims were approved by the court clerk and either the district or associate district judge.
- Tested compliance with 20 O.S. § 1304 for the Court Fund, which included the following:
  - Randomly selected 25 Court Fund claims and verified the following:
    - Expenditures were made for the operation of the court.
    - Claims were approved by the district judge and either the court clerk or the local associate judge.

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

**Objective 12:** To determine the County Sheriff's Inmate Trust Fund financial operations complied with 19 O.S. § 531A, which requires these funds only be expended to refund monies to inmates or to transfer funds to the Sheriff's Commissary Fund for inmate expenditures.

**Conclusion:** With respect to items tested, the County Sheriff's Inmate Trust Fund financial operations did not comply with 19 O.S. § 531A, which requires these funds only be expended to refund monies to inmates or to transfer funds to the County Sheriff's Commissary Fund for inmate expenditures.

**Methodology:** To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to expending funds from the County Sheriff's Inmate Trust Fund, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included selecting 100% of the County Sheriff's Inmate Trust Fund checks issued from July 2010 through June 2011, to determine the purpose of the expenditure was made only for the purposes of transferring funds to the County Sheriff's Commissary Fund or refunding money to inmates.

**Finding: Inadequate Internal Controls and Noncompliance Over the County Sheriff Inmate Trust Fund Expenditure Process**

**Condition:** Upon inquiry of County personnel, observation, and review of documents, regarding the Inmate Trust Fund, the following was noted:

- The County Sheriff's secretary solely performs key duties such as receipting, depositing, reconciling, as well as, issuing and signing checks without independent verification.
- Ninety-three of the two hundred ninety checks tested were not issued in compliance with 19 O.S. § 531A.
  - Sixty were issued to the vendor supplying commissary items.
  - Eight were issued to the Cotton County Court Clerk.
  - Two were issued to a restaurant for pizza.
  - Nineteen were issued to the bail bondsmen.
  - One was issued to a church.
  - One was issued to an individual other than an inmate.
  - Two were issued to the Cotton County District Attorney.

**Cause of Condition:** Procedures have not been designed to adequately segregate the duties regarding the collecting, depositing, disbursing, and recording of Inmate Trust funds and to ensure that expenditures from the Inmate Trust Fund are made only for the specified purposes outlined in 19 O.S. § 531A.

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

**Recommendation:** OSAI recommends the County implement procedures to ensure that checks are made payable to either the County Sheriff's Commissary Fund or paid directly to the inmate. OSAI also recommends that checks issued be properly approved by the County Sheriff's office. OSAI further recommends that key accounting processes be adequately segregated.

**Management Response:** Corrective measures will be taken to ensure that checks are made payable to the Sheriff's Commissary Fund, paid directly to the inmate, or a Court Order will be obtained if payment is to be made to the Court Clerk for fines and costs. We will also work to segregate key accounting processes.

**Criteria:** Effective internal controls include management properly implementing procedures to ensure that expenditures of inmate funds comply with 19 O.S. § 531A and that internal control procedures be implemented to ensure safeguarding of inmate trust funds.

All Objectives:

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

**Finding: 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:** 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 should be included in the County's policies and procedures handbook.

**Management Response:**

**BOCC:** The BOCC will work together with all County officials to develop a plan to monitor the County's internal controls to ensure that audit findings and other reviews are properly resolved.

**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.



**OFFICE OF THE STATE AUDITOR & INSPECTOR**  
2300 N. LINCOLN BOULEVARD, ROOM 100  
OKLAHOMA CITY, OK 73105-4896

[WWW.SAI.OK.GOV](http://WWW.SAI.OK.GOV)