

OPERATIONAL AUDIT

# COTTON COUNTY

For the period July 1, 2008 through June 30, 2009



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

**COTTON COUNTY OPERATIONAL AUDIT  
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2009**

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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

November 15, 2013

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

Transmitted herewith is the audit report of Cotton County for the period July 1, 2008 through June 30, 2009.

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, reading "Gary A. Jones".

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

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**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 – 6,299  
(2007 est.)

Farms – 517

Land in Farms – 366,651 Acres

Primary Source: Oklahoma Almanac 2009-2010

**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  
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**Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for FY 2009**

|  | Beginning<br>Cash Balance<br>July 1, 2008 | Receipts<br>Apportioned | Disbursements       | Ending<br>Cash Balance<br>June 30, 2009 |
|--|---|-------------------------|---------------------|---|
| Combining Information:                   |   |                         |                     |   |
| County General Fund                      | \$ 302,108                                | \$ 894,700              | \$ 989,953          | \$ 206,855                              |
| County Highway                           | 1,851,294                                 | 2,134,818               | 2,093,798           | 1,892,314                               |
| County Health Department                 | 49,986                                    | 85,444                  | 65,164              | 70,266                                  |
| Sheriff Service Fees                     | 27,766                                    | 48,703                  | 40,818              | 35,651                                  |
| Sheriff Board of Prisoners               | 64,898                                    | 199,422                 | 191,676             | 72,644                                  |
| Resale Property                          | 26,167                                    | 25,365                  | 24,455              | 27,077                                  |
| Sheriff Commissary                       | 4,960                                     | 26,043                  | 24,645              | 6,358                                   |
| Free Fair Premiums                       | 3,633                                     | 2,210                   | 1,856               | 3,987                                   |
| REAP Grant                               | 42  | 156,448                 | 46,001              | 110,489                                 |
| CDBG                                     | -   | 135,324                 | 43,201              | 92,123                                  |
| Remaining Aggregate                      | 126,350                                   | 24,106                  | 44,145              | 106,311                                 |
| <b>Combined Total - All County Funds</b> | <b>\$ 2,457,204</b>                       | <b>\$ 3,732,583</b>     | <b>\$ 3,565,712</b> | <b>\$ 2,624,075</b>                     |

\* Due to reclassification of funds for the fiscal year ending June 30, 2008, the ending balance reported is different than the July 1, 2009, beginning balance. The difference is due to one fund being reported as trust and agency fund in the fiscal year 2008 that should have been classified as a county fund, resulting in an increase of \$3,633, and one county fund ending balance being overstated by \$1. These adjustments resulted in a net increase of \$3,632.

*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, 2008 through June 30, 2009.

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.

|                     |   |
|---------------------|---|
| <b>Objective 1:</b> | To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2009. |
|---------------------|---|

**Conclusion:** With respect to the items reconciled and reviewed, the receipts apportioned, disbursed, 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, 2009, 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 Treasurer's Office**

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

- There is no evidence of a review of bank reconciliations being performed.
- There was no segregation of duties in the daily report process. The same employee is issuing receipts, reconciling, and compiling the daily reports.
- There is 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 is no documentation that reconciliation of fund balances between the Treasurer's office and the Clerk's office are reviewed and approved by someone other than the preparer.

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

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| <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. |
|---------------------|--|

**Conclusion:** With respect to the days tested, the County did not comply with 62 O.S. § 517.4 which requires County deposits with financial institutions be secured with collateral securities or instruments.

**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, 2008 through June 30, 2009, 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-eight day's 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.



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Additionally, the County's General and Official Depository bank accounts were not adequately pledged as follows:

- September 29, 2008, in the amount of \$403,308.37.
- September 30, 2008, in the amount of \$ 399,083.08.
- October 8, 2008, in the amount of \$169,828.27.
- October 9, 2008, in the amount of \$154,201.81.
- October 14, 2008, in the amount of \$217,820.13.
- October 16, 2008, in the amount of \$189,027.22.
- October 23, 2008, in the amount of \$163,963.97.
- October 30, 2008, in the amount of \$155,124.32.
- November 3, 2008, in the amount of \$103,103.72.
- November 5, 2008, in the amount of \$66,050.31.
- December 30, 2008, in the amount of \$130,630.86.
- December 31, 2008, in the amount of \$126,664.09.
- January 2, 2009, in the amount of \$460,316.47.
- January 5, 2009, in the amount of \$411,493.63.

**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:** These conditions resulted in noncompliance with state statute. Failure to monitor pledged collateral amounts resulted 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:** Procedures are being put in place for daily monitoring of pledged collateral.

**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.

**Objective 3:** 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 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 internal controls related to the process of apportioning and appropriating sales tax 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 24 purchase orders issued for the OSU Extension and 13 purchase orders issued for Free Fair/Ag Arena/Expo Center fund for the period of July 1, 2008 through June 30, 2009, to determine the expenditures were made for designated purposes on sales tax ballot as required by 68 O.S. § 1370E.

**Finding: Inadequate Internal Controls Over Sales Tax Apportionments and Appropriations and Noncompliance with State Statute**

**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 resulted in noncompliance with state statute and could result in sales tax funds being incorrectly calculated and apportioned to incorrect funds and not expended in accordance with sales tax ballot.

**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:** 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 reviewed and documented by an independent party and would include expenditure procedures that ensure compliance with 68 O.S. § 1370E.

**Finding: Noncompliance Over Sales Tax Appropriations**

**Condition:** For the period of July 1, 2008 through June 30, 2009, the County appropriated \$96,919.38 for the OSU Extension, but actually collected \$99,177.22. The excess OSU Extension collections of \$2,257.84 were not appropriated in accordance with the sales tax ballot(s). The County appropriated \$2,000.00 for the Free Fair/Ag Arena/Expo Center, but actually collected \$9,185.49. The excess Free Fair/Ag Arena/Expo Center collections of \$7,185.49 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:** This condition 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 should be strengthened regarding the application of certified levies to the tax rolls and the apportionment and distribution of ad valorem tax collections.

**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 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 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.

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**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.

**Conclusion:** With respect to the items tested, the County's financial operations complied with 19 O.S. § 1505C and 19 O.S. § 1505F. However, the County's financial operations did not comply with 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, 2008 through June 30, 2009, 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.

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

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**Effect of Condition:** These conditions resulted in noncompliance with state statute 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, receiving reports should be attached to receiving reports.

**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.

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| <b>Objective 6:</b> | 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; and 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. 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, misappropriation of funds, or clerical errors that are not detected in a timely manner.

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| <b>Objective 7:</b> | 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 do 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 officer's 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 Over Concentration of Payroll Duties**

**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 payroll duties.

**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.

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| <b>Objective 8:</b> | 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. Further, internal controls over consumable inventories should be strengthened.

**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.

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- 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 is verifying the goods received, recording the items on the inventory cards, and performing 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:** These conditions resulted in noncompliance with state statute. 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.

In addition, effective internal controls include designing and implementing procedures to ensure that all supplies, materials, and equipment received, disbursed, stored, and consumed by their department comply with 19 O.S. § 1504A.

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**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.

**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, and 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 and verified the items were marked properly with county identification numbers and "Property of Cotton County" as required by 69 O.S. § 645.

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

**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.

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       |

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| <b>County Identification Number</b> | <b>Description of Item</b> | <b>County Office</b> |
|-------------------------------------|----------------------------|----------------------|
| 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 statutes and could result in inaccurate or incomplete inventory records and noncompliance with statutes.

**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.

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| <b>Objective 10:</b> | 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 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 being issued in sequential order.
  - Deposits were made daily with the Treasurer's office as prescribed by the statute.

**Finding: Inadequate Controls Over Official Depository Receipts and Deposits and Noncompliance with 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 Treasurer and participate in reconciliations.
- The County Clerk and 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 revealed the following noncompliance with regard to the Treasurer's and Sheriff's official depository accounts:

- **Treasurer:** Seven instances were noted in which receipts were not issued for collections deposited.
- **Sheriff:** Six instances were noted in which no receipts were not issued for collections deposited and fourteen 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:** These conditions resulted in noncompliance with state statute. 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.

Further, OSAI recommends that each office comply with Title 19 O.S. § 682, which requires all funds received under the color of office be deposited on a daily basis. All funds received should be receipted at the time of receipt by employees.

**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. 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, misappropriation of funds, or clerical errors that are not detected in a timely manner.

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| <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 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. 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 4 claims (10%) from the Court Clerk Revolving 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.
- 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 lawful operation of the office.
    - Claims were approved by the court clerk and either the district or associate district 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.



|                      |   |
|----------------------|---|
| <b>Objective 12:</b> | 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 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 Sheriff's Inmate Trust Fund, which included discussions with County personnel, observation, and review of documents.
- Tested compliance with the significant law by selecting 100% of Inmate Trust Fund Checks issued from February through June, to determine the purpose of the expenditure was made only for the purposes of transferring funds to the 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.
- Thirty nine of the one hundred twenty one checks tested were not issued in compliance with 19 O.S. § 531A.
  - Twenty were issued to the vendor supplying commissary items.
  - One was issued to the Postmaster.
  - Seven were issued to a pharmacy for inmate medications.
  - One was issued to a doctor for inmate's office visit.
  - Four were issued to the Cotton County Court Clerk.
  - One was issued to a welding school.
  - Two were issued to the bail bondsmen.
  - One was issued to a foundation.
  - One was issued to an individual other than an inmate.
  - One was 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 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 Sheriff's Commissary Account or paid directly to the inmate. OSAI also recommends that checks issued be properly approved by the Sheriff's office. OSAI further recommends that key accounting processes be adequately segregated.

**Management Response:**

**County Sheriff:** Corrective measures will be taken to ensure that checks are made payable to the Sheriff's Commissary Account, 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)