



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

Honorable County Judge and
Commissioners' Court
Van Zandt County, Texas

In planning and performing our audit of the financial statements of Van Zandt County, Texas, as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 6, 2014, contains our report on the County's internal control. This letter does not affect our report dated November 6, 2014, on the financial statements of Van Zandt County, Texas.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various County personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Pattillo, Brown + Hill, L.L.P.

November 6, 2014

VAN ZANDT COUNTY, TEXAS
RECOMMENDATIONS AND SUGGESTIONS

SEPTEMBER 30, 2013

CURRENT YEAR COMMENTS

CASH PROCEDURES – SHERIFF’S OFFICE

During our audit of the County’s cash, we discovered that the Sheriff’s Office has deposited funds into the incorrect account on multiple occasions. The Sherriff’s office maintains two separate accounts: the inmate trust account and the cash bond account. This issue has resulted in account overdrafts and misstatement of county funds. In order to correctly state cash, we recommend that the Sheriff’s Office perform transfers between the accounts to correctly state the balances. Safeguards should also be put in place to ensure deposits and withdrawals are made from the correct account in the future.

VAN ZANDT COUNTY, TEXAS
RECOMMENDATIONS AND SUGGESTIONS

SEPTEMBER 30, 2013

PRIOR YEAR COMMENTS

CASH DRAWERS – DISTRICT CLERK

Prior Year Comment:

Proper physical safeguards over assets decrease the County's susceptibility to misappropriation. Adequate safeguards over cash should exist from the time of receipt until the time of bank deposit. During our examination of internal controls over cash at the District Clerk's office, we discovered that all clerks operate from the same cash drawer. In order to reduce the risk of misappropriation of assets, we recommend each clerk operate in separate cash drawers.

Current Status:

Each clerk now has their own separate cash drawer. This is no longer applicable.

SEGREGATION OF DUTIES

Prior Year Comment:

An essential element of any internal control system is the separation of functions in such a manner that no single individual could perpetrate an error and conceal it without the error being discovered in a timely manner. Three general categories of functions that should be separated to achieve effective control are:

- Maintaining custody of assets
- Authorizing transactions
- Recording transactions

One individual's ability to perform functions in two or more of the categories above increases the risk that this individual could create an error and conceal that error without detection in a timely manner.

Currently, the clerks at the Justice of the Peace offices that are responsible for entering tickets and collecting funds have the ability to process cases in the system by a means other than receipting of cash. Currently, procedures are not in place to verify cases cleared in the records management system agrees to supporting documentation. Also, we noted procedures for recordkeeping in each JP office is not consistent. In a small entity, segregation of duties often presents difficulties due to the limited number of employees. However, even those with few employees may be able to assign responsibilities to achieve adequate segregation. We recommend the Judge sign off on all jackets verifying that appropriate documentation has been presented to clear a case. Additionally, we recommend the County begin a process of standardizing how case information is documented, such as receipt numbers being written on all jackets. Finally, the County should determine if additional staff can be placed at the JP offices to enable segregation of duties, or an additional staff person to be able to perform internal audits at the JP offices throughout the year. We encourage the County to continue to evaluate the controls currently in place and segregate duties to the extent possible. When considering any changes to the current internal control structure, the costs of implementation should be weighed against the benefits derived.

Current Status:

Unchanged

PURCHASING AND BIDDING PROCEDURES

Prior Year Comment:

Through the course of our audit, we noted that the purchasing and bid process was not consistent with the County's purchasing procedures. We discovered instances in which purchases were made prior to the issuance of a purchase order and proper bid procedures were not followed. The County Auditor's office currently prepares memos when an individual does not follow purchasing and/or bid procedures. The purpose of purchasing and bid procedures is to ensure that purchases of significant value are properly authorized and that state bid requirements are followed. We recommend that purchasing procedures and bid requirements be communicated to the appropriate individuals throughout the year.

Current Status:

PBH noted that bidding procedures were correctly followed and this is no longer applicable.

MAINTAINING OF LEOSE FUNDS

Prior Year Comment:

During our audit of cash, it was noted that Constables 1, 2 & 3 maintain individual bank accounts for the Law Enforcement Officer Standards and Education Funds. Currently, these funds are not disbursed in accordance with the County's purchasing procedures. We recommend the funds be maintained by the County in the same manner as the other law enforcement offices and expenditures be approved in accordance with the County's purchasing procedures to ensure proper use of the funds.

Current Status:

This program has not been funded by the state for fiscal year 2014.

ANTIFRAUD PROGRAMS AND CONTROLS

Prior Year Comment:

Antifraud programs and controls are the policies and procedures put in place by an organization to help ensure that management directives are carried out. They are part of the overall system of internal control established to achieve reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. An organization's management is responsible for designing and implementing effective systems and procedures for preventing, deterring and detecting fraud. With the recently intensified focus on fraudulent financial statement reporting, as well as the ever-present risk of misappropriation of assets, many organizations are now more interested in establishing effective antifraud programs and controls.

The risk of fraud can be reduced through a combination of prevention, deterrence and detection measures. However, fraud can be difficult to detect, and the time and expense required for fraud investigation can be very costly. Therefore, it is essential to place a strong emphasis on fraud prevention to reduce opportunities for fraud and fraud deterrence that discourages individuals from committing fraud because of the likelihood of detection and punishment.

The AICPA fraud task force of the Auditing Standards Board commissioned a group of organizations and individuals with expertise in the area of fraud prevention, deterrence and detection to develop guidance to help companies improve their antifraud programs and controls. In November 2002, the AICPA and six other professional organizations jointly published a document titled, "Management Antifraud Programs and Controls: Guidance to Help Prevent, Deter and Detect Fraud." This document identifies measures entities can implement to prevent, deter and detect fraud. It discusses these measures in the context of three fundamental elements. Broadly stated, these fundamental elements are:

- 1) create and maintain a culture of honesty and high ethics;
- 2) evaluate the risks of fraud and implement the processes, procedures and controls needed to mitigate the risks and reduce the opportunities for fraud; and
- 3) develop an appropriate oversight process.

We recommend the County develop a heightened "fraud awareness" and an appropriate fraud risk-management program with oversight provided by the Commissioners' Court or audit committee. An effective system of antifraud program and controls should encompass prevention, deterrence and detection techniques and activities.

Current Status:

The County has appointed a financial advisory committee/audit committee to oversee the creation and implementation of audit fraud programs and controls. The Committee is in the process of being brought up to speed on the current processes and procedures of the County.

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We appreciate the opportunity to serve **Van Zandt County**. If you should have any questions concerning the above comments or any other concerns, please do not hesitate to contact our office.