

# BW&C

**BROOKSWATSON & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS

June 23, 2026

To the Honorable Judge and  
Members of the Commissioner's Court,  
Fannin County, Texas

In planning and performing our audit of the financial statements of the Fannin County, Texas (the "County"), as of and for the year ended September 30, 2025, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.
- Probable. The future event or events are likely to occur.

Other matters are any additional noteworthy items that may be related to internal controls or other areas such as compliance with laws and regulations. We noted the following matters:

## **1. BANK RECONCILIATIONS**

### **Finding**

The County's pooled cash bank reconciliation backdated \$1,597,244.95 in checks rather than reporting as accrued expenses at year end. This caused the bank reconciliation to not match the County's financial records. In addition, the bank reconciliation included outstanding checks dating as far back as 2012 that have yet to clear the bank.

### **Recommendation**

We recommend that the County discontinue the practice of recording check disbursements outside of the bank reconciliation process. The backdated checks were posted to cash in the general ledger after the bank reconciliation had been completed, causing the reconciliation to disagree with the County's financial records by the \$1,597,244.95. Each check should bear the actual date on which it is printed and signed, and the County should implement a cutoff control prohibiting any check from carrying a date earlier than its true issue date. To the extent these items represent goods or services received as of the fiscal year end that remained unpaid at that date, they should be recorded as accounts payable on the modified accrual basis used by the County's governmental funds, or on the full accrual basis for any items attributable to fiduciary funds, rather than being given an effective date that forces them into the current period inappropriately.

We also recommend that the County research all outstanding checks that have aged beyond a reasonable period, including those dating back to 2012. The County should establish a stale check policy defining the period after which an uncleared check is considered stale at six months. For checks that represent genuinely abandoned funds, the County must comply with the unclaimed property reporting requirements of the Texas Property Code and report these amounts to the Texas Comptroller before any reversal is made. Amounts properly cleared of any unclaimed property obligation should be reversed to the appropriate fund. The County should perform a review of outstanding checks at least annually so that stale items are identified and resolved on a timely basis.

## **2. SEGREGATION OF DUTIES – JUSTICE OF THE PEACE (JP) COURT DISMISSALS**

### **Finding**

We noted that County clerks can issue compliance dismissals of citations without formal approval by the Judge or Justice of the Peace, and that supporting documentation for such dismissals is not consistently retained. Clerks handling both fine collections and dismissals without proper oversight and documentation presents a risk of asset misappropriation.

### **Recommendation**

We recommend that the County implement controls to segregate dismissal authorization from fine collection. Specifically, all compliance dismissals should require documented approval by the Judge or Justice of the Peace before being entered into the case management or revenue

system. Supporting documentation evidencing the basis for each dismissal should be retained in accordance with a defined retention policy. Where staffing limits full segregation the County should implement a compensating detective control, such as periodic independent review of all dismissals by someone outside the cash-handling function, reconciled against citation and collection records.

### **3. SEGREGATION OF DUTIES – DEPOSITS**

#### **Finding**

In some departments, the same staff who collect payments also prepare their office's deposits and deliver them to the Treasurer's Office. Deposits are not made daily, and cash drawers may be shared by multiple staff members. Allowing staff to both collect and deposit funds increases the risk of misappropriation. Irregular deposit timing and shared drawers reduce the County's ability to detect and trace errors or irregularities.

#### **Recommendation**

We recommend that the County separate the collection function from the deposit preparation and delivery function in all departments. Where staffing does not permit a full separation of these duties, the County should implement compensating controls under which a supervisor or other independent employee reconciles the recorded collections to the prepared deposit and be signed before the deposit is delivered to the Treasurer Office.

We further recommend that the County establish and enforce a written policy requiring deposits to be made daily, or on the next business day and that each employee who handles cash be assigned an individual cash drawer or fund for which that employee alone is accountable, with drawers counted and reconciled at the beginning and end of each shift. These measures will strengthen accountability over public funds and improve the County's ability to detect and trace errors or irregularities in a timely manner.

### **4. PAY RATE INCREASES**

#### **Finding**

During our testing of the County's payroll processes, we found that pay increases are established through the budget, but there were no pay rate authorization forms to provide a paper trail for changes. This limits the ability to verify that employees are paid correctly.

#### **Recommendation**

We recommend the County implement a standardized pay rate change authorization, or personnel action, form for each individual rate change. The form should identify the employee, the prior and new rate, the effective date, and the budgetary or governing-body authorization supporting the change and should be signed by the employee's supervisor. The completed form should be retained and used by payroll staff as the source document for entering rate changes and reconciled periodically to rates in the payroll system.

## **5. SEGREGATION OF DUTIES – PAYROLL AND HUMAN RESOURCES**

### **Finding**

Currently, payroll and human resources (HR) duties are performed by the same individual. Ideally, payroll processing should be separated from HR, which should handle entry of new employees and payroll changes. Combining these duties increases the risk of payroll manipulation, such as modifying pay rates or creating phantom employees.

### **Recommendation**

The County should separate payroll processing from the human resources function. Specifically, the individual responsible for entering new employees, terminations, time from time sheets, and pay rate changes in the HR system should not also process payroll disbursements. Where staffing limitations prevent full segregation, the County should implement a compensating control such as an individual independent of the payroll function reviewing and approving a payroll change report and a payroll register each pay period, comparing changes to supporting authorization documentation, and document that review.

## **6. DUAL AUTHORIZATION – EFT AND ACH PAYMENTS**

### **Finding**

While the County requires dual approval for all electronic payments, this is a policy-based requirement, not one enforced by the bank. Some banks offer built-in dual approval processes that prevent EFTs from being processed unless two individuals approve them. A system-enforced control provides stronger protection, as internal policies can potentially be overridden.

### **Recommendation**

The County should separate request that the banking institution require a dual authorization requirement for all electronic payments so that no EFT can be released unless two authorized individuals approve it within the banking platform. A system-enforced control eliminates the risk that the dual-approval policy is bypassed and provides stronger assurance than a policy-based requirement alone.

## **7. DONATED LAND**

### **Finding**

During our testing of revenues, we noted that the County sold land that was not listed in its capital asset schedules. Per discussion with the County's Auditor office, the land sold was donated and not recorded on its books or capital schedules when received.

### **Recommendation**

We recommend that the County record donated capital assets, including land, at acquisition value as of the date ownership is transferred, in accordance with GASB Statement No. 72, and that such assets be added to the capital asset schedules when received.

## **8. COMMISSIONER MEETING MINUTES**

### **Finding**

As part of the audit processes, we are required to review commissioner meeting minutes. Per review of the minutes on the County's website and inquiry of the County's staff, the minutes for September 2025 could not be located.

### **Recommendation**

We recommend that the County implement procedures to ensure that all Commissioners Court meeting minutes are timely prepared, formally approved, retained in accordance with applicable records-retention requirements, and maintained in a manner that allows for ready retrieval.

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