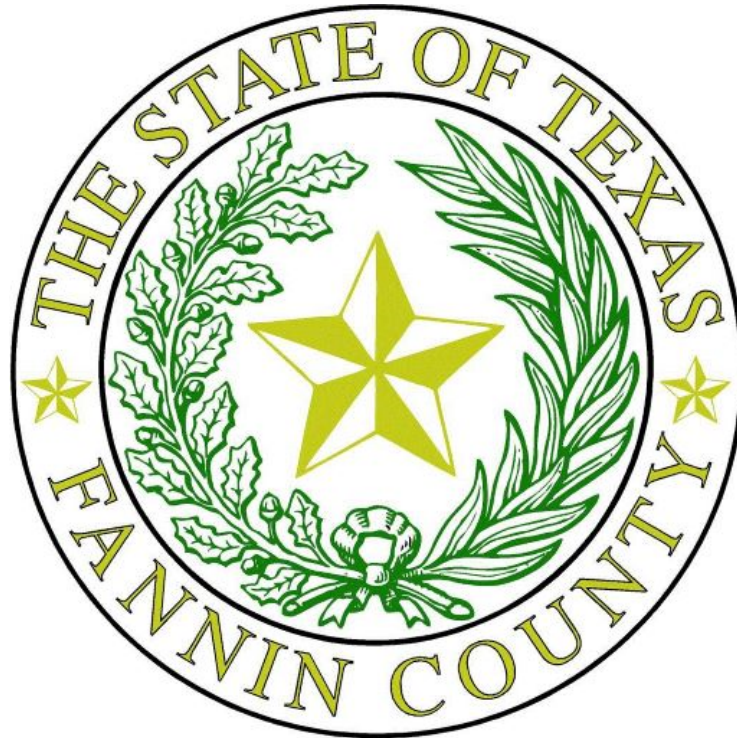


# **FANNIN COUNTY INTERNAL AUDITOR'S REPORT**

## **Treasurer's Office Audit**

October 1, 2024 - September 30, 2025



**April 10th, 2026**

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**OFFICE OF THE**

**COUNTY AUDITOR**

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April 10th, 2026

Honorable David Woodson, County Treasurer  
Honorable Commissioners Court of Fannin County

Internal Auditor's Report – Review of Financial and System Controls of the Fannin County Treasurer Dept.

## **INTRODUCTION**

The Auditors Office conducted an internal audit of the Fannin County Treasurer's Office, in accordance with Local Government Code §115. The internal audit covered the period October 1, 2024 through September 30, 2025.

The mission of the Fannin County Auditor's Office is to provide responsible and progressive leadership by:

- Complying with applicable laws and regulations
- Safeguarding and monitoring County assets through sound fiscal policies
- Assessing risk and establishing adequate internal controls
- Accurately recording and reporting financial transactions
- Ensuring timely and accurate processing of payments to employees and vendors
- Demonstrating honesty, fairness, and professionalism
- Providing services with integrity
- Partnering with departments to resolve County issues
- Utilizing efficient and effective technology
- Providing technical support and training for information systems
- Maintaining accountability to the citizens of the County
- Remaining responsive to elected officials and department heads

## Audit Objectives

- Ensure compliance with statutory requirements
- Evaluate internal controls
- Verify accuracy and completeness of reporting
- Review controls over safeguarding of assets

## Scope

The audit included a review of internal controls, financial records, and administrative procedures related to revenue collections, deposits, disbursements, and investments. This included examination of books, accounts, reports, and records of the Treasurer's Office.

## Procedures Performed

- Reviewed the County Treasurer's bond for compliance with Local Government Code §83.002
- Tested a sample of deposits for accuracy and timeliness (LGC §113.022)
- Observed operations and interviewed personnel regarding internal controls
- Verified compliance with continuing education requirements (GC §2256.008)
- Reviewed the County's Investment Policy (GC §2256.005)

The Treasurer is in compliance with bond and oath requirements. A \$5,000 bond for David Woodson was verified (effective January 1, 2023 – January 1, 2027). Mr. Woodson began serving as County Treasurer on January 1, 2014, and will complete his third term in December 2026.

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## Background

Historically, treasury duties in Texas were performed by the County Clerk. The office of County Treasurer was established in the Texas Constitution of 1845, made elective in 1850, and reaffirmed in the 1876 Constitution as an independent office.

The Treasurer serves three primary functions:

- Receiving County revenues
- Acting as custodian of County funds
- Disbursing funds as directed by Commissioners Court

Many Treasurers also serve as Investment Officers, managing surplus public funds to generate returns.

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## Examination Methodology

Audit procedures included sampling, observation, and reliance on verbal and written representations from Treasurer's Office.

Because sampling techniques were used, not all material weaknesses or errors may have been identified. Unless otherwise noted, management representations were deemed reliable.

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## COMMENTS AND RECOMMENDATIONS

### 1. Investment Training & Continued Education Requirements

The education key requirements for a county Treasurer/investment officer include:

- At least 10 hours of instruction within 12 months of taking office or assuming duties.
- At least 10 hours of training every two years, based on the local government's fiscal year, to keep certifications active.
- Investment officer Training: Pursuant to Government Code 2256.008, at least 10 hours of instruction relating to investment responsibilities from an approved source every two years
- Training must be provided by an "independent source" approved by the governing body or a designated investment committee

David Woodson acts as the Treasurer and Investment Officer for the county which requires additional 10 hours of instruction every two years to stay in compliance with all education requirements outlined in Government Code 2256.008.

#### Comments:

It was verified that the Treasurer/investment officer remained in compliance with all education requirements outlined in Government Code 2256.008 throughout his three terms as Treasurer.

### 2. Investment Reporting Requirements

In accordance to the County's Investment Policy Article IV and Texas Government Code Section 2256.023, part of the Public Funds Investment Act, requires the investment officers to submit at least quarterly written reports on the investment transactions to the commissioner's court. To be in compliance with this code the quarterly investment report must:

- describe in detail the investment position of the entity on the date of the report
- be prepared jointly by all investment officers of the entity
- be signed by each investment officer of the entity
- contain a summary statement of each pooled fund group that states the:

- (a) beginning market value for the reporting period;
- (b) ending market value for the period; and
- (c) fully accrued interest for the reporting period
- state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested
- state the maturity date of each separately invested asset that has a maturity date;
- state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; and state the compliance of the investment portfolio of the state agency or local government as it relates to:
  - (a) the investment strategy expressed in the agency's or local government's investment policy; and
  - (b) relevant provisions of this chapter.
  - (c) The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period.

Per Article IV of the County's Investment Policy, the Investment Officer must submit an annual report detailing all investment transactions from the preceding fiscal year. This report shall provide a comprehensive analysis of the investment position for all funds under the County's authority as of the reporting date.

### Comments:

The Treasurer prepares and submits an annual investment report. The FY2025 report was reviewed and presented to Commissioners Court.

A detailed review of monthly investment reports and the Investment Policy confirmed that all required elements under Texas Government Code §2256.023 are either included in the investment reports or addressed through the county's investment policy.

### 3. Departments with Separate Bank Accounts

Under Texas law, the general rule established by the Texas Local Government Code Section 113.021 is that all fees, commissions, and funds belonging to a county must be deposited with the County Treasurer. Allowing individual offices to manage their own bank accounts has certain risk that can result in delays in depositing funds, fractured or duplicated financial records, lack of proper security for public funds, inefficient interest accumulation, and higher transactional costs.

Generally, counties deposit their funds with the Treasurer to ensure centralized control, enhanced security, legal compliance, and better interest earnings through pooled investments. The Treasurer acts as the county's banker, providing professional cash management, reducing banking fees, enforcing internal controls, and ensuring funds are held in secure, qualified public depositories.

Key Reasons for Using the Treasurer:

- **Internal Controls and Accountability:** Centralizing funds with the Treasurer ensures that taxes and fees are safely managed and reconciled, providing crucial accountability that individual department accounts lack.
- **Safety and Legal Compliance:** Treasurers ensure that public funds are deposited in approved, high-repute financial institutions that meet state security requirements, often monitored by public deposit protection commissions.

- **Higher Interest Earnings:** By pooling money, the Treasurer can invest funds more efficiently and obtain higher interest rates than individual departments would on their own, often maximizing revenue for the county.
- **Reduced Banking Costs:** Centralization allows the county to take advantage of volume discounts on services and reduces the need for administrative staff for treasury management across various departments.
- **Cash Flow Management:** The Treasurer manages the overall cash flow of the county and taxing districts, ensuring funds are available when needed for payments and managing debt services.

However, there are specific legal, practical, and statutory reasons why certain county offices or elected officials may maintain and operate their own separate bank accounts rather than immediately turning those funds over to the central treasury. These reasons would include county offices that routinely handle money for trust and registry funds. For specialized accounts such as custody of seized and forfeited assets or for departments that have specific needs to collect, clear and reconcile payments before the final net revenue is formally remitted to the county treasury.

### Recommendation:

The County Treasurer should evaluate all departments maintaining external bank accounts to determine whether a valid statutory or operational need exists. Departments without sufficient justification should transition to depositing funds directly with the Treasurer to ensure compliance with Texas Local Government Code Section 113.021.

## 4. Government Code §2256.025 Selection of Authorized Brokers

Government Code §2256.025 states - The governing body of an entity subject to this subchapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

The authorized investment broker list should be formally adopted by the governing body or a designated committee. A well vetted list ensures that only reputable and qualified brokers are used for investing public funds, aligning with the overall safety and strict requirements of the Public Funds Investment Act. This requirement is a core component of the Public Funds Investment Act, which aims to protect public funds from loss while allowing for a reasonable return.

Accessing multiple brokers allows the county to solicit competitive bids or offers, ensuring the highest possible yield and liquidity. Competition among brokers can lead to reduced transaction costs and more favorable fee structures for the county. Limiting transactions to a single broker creates "concentration risk." Spreading transactions across an authorized list mitigates the impact if one firm faces financial distress or technical outages. A pre-approved list prevents investment officers from conducting "unauthorized" business transactions, reducing the potential for fraud or misrepresentation by third parties. The mandated annual review ensures that all brokers continue to meet the county's standards for financial stability and regulatory compliance. The selection process provides a formal mechanism to identify and disclose any personal business relationships between the county's investment officers and broker representatives.

While the Investment Policy outlines permissible investments, it does not include a detailed formal list of authorized brokers. The county's current investment portfolio appears limited in diversification.

## Recommendation:

To ensure compliance with Government Code §2256.025, the Treasurer should create and submit a list of qualified brokers to Commissioners Court for review and approval along with the county investment policy at least annually. The potential brokers should be properly vetted and meet the requirements outlined in the County's investment policy. The selection of authorized brokers list could be incorporated into the Investment Policy as an addendum.

## 5. Investment Advisory Committee

The County's Investment Policy (Article III) establishes an Investment Advisory Committee consisting of:

- County Judge
- County Treasurer/Investment Officer (Chair)
- County Auditor (Secretary)
- Rotating Commissioner
- Optional citizen member

The committee has not been formally established, and investment decisions are currently made solely by the Treasurer. Having a committee should bring external financial expertise, enhances transparency to boost public trust, ensures diverse perspectives on risk, and assists in crafting effective and compliant investment strategies.

## Recommendation:

The Treasurer department should establish the investment advisory committee as outlined in policy. Regular meetings should be scheduled to review investment opportunities, assess risk, and guide strategy. All investment changes should be presented to Commissioners Court.

## 6. Physical Security

Physical security encompasses any method to physically secure the collections from loss. Collections not being used should be kept in a locked drawer/safe until they are needed or deposited.

As part of the audit, the auditor conducted a surprise cash count on March 31, 2026. All collections were accounted for at the time of the surprise cash count.

## Comments:

Controls are in place to ensure the Treasures office uses a lockable safe to safeguard collections in the office until deposited. The safe is out of site and remains locked.

## 7. Government Code §2256.005 Investment Policies, Strategies and Investment Officer

Under Government Code §2256.005, an investing entity's governing body must adopt a written investment policy for all funds under its control. At a minimum, this policy must prioritize safety and liquidity while addressing diversification, yield, maturity, and market price monitoring. The governing body must review the policy annually

and adopt a formal rule or resolution confirming this review and documenting any changes made to investment strategies or policies.

### **Comments:**

The county is in compliance with Government Code §2256.005, as the county's Investment Policy has been submitted to the Commissioners Court for review annually.

## **8. Management of Collections, Deposits, and Transfers**

Properly prepared bank reconciliations are critical for effective cash management. To ensure full accountability of county funds, the Treasurer and Auditor's offices operate in tandem. The Auditor's office maintains a comprehensive revenue spreadsheet to ensure precise allocation, while the Treasurer processes deposit warrants, typically securing funds in the bank the same day. Every transaction is logged in the accounting system with a unique receipt number and all supporting documentation, including deposit warrants and slips, is then forwarded to the Auditor's office for final reconciliation and approval.

Under Local Government Code (LGC) §113.022, all county funds must be deposited with the County Treasurer by the next business day. If delayed, deposits must occur no later than the fifth business day. To maximize security and financial benefit, the County Treasurer maintains a policy of daily bank deposits. Our review concluded that the Treasurer's deposit process complied with these statutory requirements

Funds are primarily transferred between the county's TexPool and General Fund accounts. Requests to move money are typically communicated verbally to the Treasurer, who then initiates the transaction via telephone using a pre-assigned PIN for validation. Once TexPool processes the request, a confirmation number is generated and posted to their website. The Treasurer downloads all supporting documentation from the TexPool portal and submits it to the Auditor's Office. To ensure legitimacy, the office also receives confirmation report from TexPool summarizing the transaction.

### **Recommendation:**

Is to require written documentation to initiate any transfer of funds instead of a verbal request. A transfer request form should be created to collect pertinent information about the transfer and filed with any other supporting documents related to the transfer. Requiring a written request for money transfers serves as a formal safeguard that ensures every transaction is authorized, transparent, and legally compliant.

The Treasurer's Office is in compliance with LGC §113.022 Time for Making Deposits and proper internal controls are in place to effectively manage collections of money.

## **9. Separation of Duties**

Proper segregation of duties is a fundamental internal control, ensuring that no single individual maintains authority over the authorization, recording, and physical custody of assets. Given the current staffing constraints of the Treasurer's Office, the Auditor's Office performs several key functions to mitigate inherent risk and provide essential oversight.

The Auditor's Office assist with the key functions below:

- Bank reconciliations
- Receipt processing
- ACH processing & documentation
- Financial reporting preparation

**Comment:**

Despite staffing limitations, effective separation of duties is achieved through Auditor office involvement.

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## **CLOSING REMARKS**

As the audit did not include a full examination of all transactions, there is a possibility that errors or irregularities were not detected. Responsibility for financial accuracy and internal controls remains with the Treasurer's Office.

Overall, the Treasurer demonstrated sound financial practices with minimal recommendations for improvement. We appreciate the cooperation and professionalism extended during this audit.

This report is intended solely for the Treasurer's Office and Commissioners Court. Please contact the Auditor's Office with any questions.