Sample Internal Control Assessment

 County Clerk

Purpose: To document an understanding and assess the internal controls of the Sample County Clerk as it pertains to the following:

1. Whether obligations and costs of the operation are in compliance with applicable law
2. Whether county funds, property and other assets that are designated/assigned to the county clerk are safeguarded against waste, loss, unauthorized use, or misappropriation
3. Whether revenues and expenditures in the ounty clerk fee account and county general fund (as it relates to the county clerk) are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets

Overview: Sample County Clerk’s Office consists of the county clerk, a bookkeeper, four deputy clerks and one part-time clerk. An in-depth analysis of the internal control environment for the operations of the Sample County Clerk’s office was performed by County Clerk Sam Davis, his employees and a CTAS County Government Consultant.

1. Whether obligations and costs of the operation are in compliance with applicable law

General:

The county clerk has a written organizational chart for office employees to show clear lines of authority (who manages whom) and written job descriptions for all employees and open positions. The clerk has an updated personnel policy that is reviewed annually to assist with compliance with federal and state labor laws. The office has a copy of the most recent county ethics policy on file in the office for office employees to reference.

Physical security of the county clerk’s office:

Sam and all his deputies have a key to the clerk’s office. However, only Sam and Fiona Apple (bookkeeper) have a key to the courthouse main door. No one other than these individuals, the county maintenance and janitor supervisors have a key to the office. The locks are rekeyed on a routine basis. Security cameras are posted in the main hallways of the courthouse, including outside the clerk’s office door. The clerk’s vault is locked at the end of the day, and only the clerk and his deputies are permitted in the vault. Occasionally the janitor cleans the vault with a deputy (or Sam) present.

Purchasing:

The county clerk’s office complies with the county purchasing policy that is in effect for Sample County Government, adopted under the Financial Management System of 1981.

Purchase orders:

Fiona will fill out all purchase order requisition with the county finance department and then Samwill sign the requisition and coordinate with the county finance department to ensure there is funding available in the line item for the purchase and that the vendor is on the approved vendor list. The county finance department issues the purchase order which authorizes the purchase to be made. Sam will then place the order with the vendor. When goods arrive, the same people verify that the goods received are itemized on the invoice. The invoice is then signed as goods received and forwarded to county finance for payment by accounts payable. There are no charge accounts (blanket purchase orders) at local stores.

Store cards:

The county clerk’s office does not have an assigned store card. However, Sam or one of his deputies (who is specifically authorized by Sam when he is not available) are authorized to utilize the Walmart card that is assigned to the county finance office. When the clerk’s office needs to purchase an item from Walmart, Sam will prepare a purchase order requisition, sign it and get a purchase order from county finance along with the Walmart card he signs out. Sam will purchase the goods and bring the signed receipt and card back to county finance. Any unspent amount of the purchase order is closed after Sam verifies that the goods were received.

Contracts:

Per Sample County purchasing policy, the county finance director signs all county contracts dealing with purchasing. All vendor contracts that are over one year in length are approved by the county commission after the county attorney reviews them. The county clerk coordinates with the county finance department to ensure contract compliance per county purchasing policy. The clerk does not sign any vendor contracts as outlined in the county purchasing policy and 1981 Financial Management System purchasing laws.

Emergency purchases:

Sam will coordinate with the county finance department in the case of emergency purchases that arise from unforeseen events that will require normal bidding procedures to be circumvented because of the nature of the emergency at hand. The county purchasing policy addresses emergency purchases and the clerk’s office complies with these policies. This would be a very rare occurrence in the clerk’s office.

Payroll:

Payroll is authorized each fiscal year through a letter of agreement that is prepared by county clerk and signed by the county mayor and Sam after the adoption of the county budget. Sam receives a copy of the county clerk’s adopted budget after the county commission approves it and then receives a monthly year-to-date expenditure vs budget report from county finance each month. The county clerk operates as an excess fee office and Sam and Fiona check each quarter to ensure they are in compliance with maintaining only three months’ worth of salaries in the clerk’s fee account, with the excess being turned over to the general fund. The county finance office processes the county clerk’s office payroll each pay period and issues a request for reimbursement from the clerk’s fee account on payday. The clerk does not provide comp or overtime as the only person that would work more hours than was originally budgeted for is the county clerk himself. All payments to employees are paid through payroll accounts (not vendor accounts) in order to comply with IRS tax code for payroll taxes, state unemployment compensation, workers’ comp laws and TCRS requirements.

1. Whether county funds, property and other assets that are designated/assigned to the county clerk’s office are safeguarded against waste, loss, unauthorized use, or misappropriation

Overview: The audited financial report detailed expenditure statements were reviewed to identify expenditures of material amounts. In the county clerk’s office, material expenditure amounts were payroll and maintenance agreements (computer software and copy machine maintenance/support). Internal controls over these material assets/costs were scrutinized in-depth.

Fee account and office cash operations-receipt/disburse/deposit/reconcile/segregation of duties over cash:

The clerk’s office utilizes a computerized accounting system (BIS) for receipting and accounting. The clerk utilizes manual checks from pre-numbered check stock that the county clerk or two other deputy clerks will sign (the bookkeeper is not authorized to sign checks). The office has a written disaster recovery plan and the system is backed up daily and the backed-up data is stored at BIS offices in a secure location in Virginia.

Daily receipting of payments into the county office are entered by any deputy clerk except the bookkeeper. Separate cash boxes are maintained by each deputy that receipts funds and are kept at the assigned deputy’s workstation inside their desk drawers. The cash boxes are counted and balanced each day by the deputies against the BIS daily cash/check report. The county clerk’s office has adopted an overage policy in which overages under $10 are placed in the clerk’s fee account. Any overage over $10 is investigated, the taxpayer is tracked down, and a refund check is disbursed from the overage account. Any shortages in daily receipting (trivial amounts such as less than one dollar) require the deputy that is short to pay from their personal funds to make the deposit intact. A large shortage in daily receipts from a deputy’s drawer would be investigated immediately by Sam. A second deputy then prepares a daily bank deposit slip, verifies that the deposit for the day is intact and ties back to the total daily cash/check report, and initials the bank deposit slip. The county clerk takes the deposit to the bank at the end of every work day. If the county clerk is not available to make the deposit, a deputy (not the bookkeeper) makes the deposit at the bank. At the end of the workday, all cash boxes with the authorized cash on hand ($150 per box, $900 total authorized by county commission resolution) are locked in the office vault. Checks are written at various times during the month by the bookkeeper or county clerk. All checks are official pre-numbered checks that are manually entered into the accounting system.

Daily bookkeeping procedures:

Fiona posts the daily activity to the general ledger through a menu option on the BIS software for titles, renewals, marriages, etc. Then all credit card transactions are posted, and the day’s receipts and invoice (title report) are closed. The daily deposit is entered along with any checks written into the accounting ledger, and an end-of-day trial balance is printed out and reviewed.

Monthly bookkeeping procedures:

Fiona performs monthly closing entries and prepares month-end general ledger reports. The county clerk reviews the monthly bank statement to ensure deposits are being made in a timely fashion, reviews the copies of all checks to verify that all disbursements were made to legitimate vendors/agencies, and then gives the bank statement to the bookkeeper who reconciles the ledger to the bank statement. The bookkeeper then prints/prepares monthly reports to other agencies/departments (titles, registrations, marriages, revenue report for county trustee, organ donor funds, building permits, etc.). Some reports are printed by BIS software and others are manually prepared. The clerk’s commissions for the month are posted to the accounting records through the monthly report (BIS program). Checks are written, and the clerk signs the checks after he reviews and signs all month-end reports. The clerk then reviews the bank reconciliation to ensure all reconciling items are legitimate (no plugged numbers). An ACH payment is authorized by the clerk for state DOR for title/registration and renewals. Monthly audit reports are printed from BIS software, and Sam reviews these reports, paying particular attention to voided receipts or changed amounts in transactions.

Annual bookkeeping procedures:

Fiona prepares the annual county clerk’s report (prepared from BIS software) after she closes for the month of June, and Sam signs it and provides it to the county mayor and the county commission. Reports are placed to be readily available for audit purposes. Sam and Fiona prepare an end-of-year accrued vacation report for the county finance office and audit for external financial reporting purposes.

Plate, title stock, and decal inventory:

Shipments of new plates, title stock, and decals are entered into the BIS inventory maintenance program when the plates/decals/titles arrive at the office. Plates, titles, and decals are entered into the BIS system as they are issued and are removed at that time by the BIS system from inventory. The bookkeeper opens the BIS inventory maintenance program at the end of each month and prints the current inventory reports for plates, titles, and decals. She then performs a physical inventory of the decals and plates on hand (that are stored in the office vault) to be sure that the physical inventory agrees with the printout. Inventory reports are submitted to the state department of revenue by the bookkeeper for their review. Sam reports any missing stock to the department of revenue and fills out a fraud reporting form in a timely manner to the state comptroller’s office.

Inventory of Office Equipment

Sam keeps an updated inventory of all computer equipment assigned to his office, and a copy is included in the disaster recovery plan that is kept offsite. BIS coordinates with Sam to do a physical inventory annually of the computer equipment. The county clerk’s office does not have any assets assigned to the office that meet capitalization thresholds for external financial reporting.

Internal controls over material expenditures - line items:

Payroll: To protect against fraud (ghost employees, unauthorized bonus payments, etc.), all county clerk employees have a personnel file maintained by Sam Davis The county clerk’s office utilizes a computerized timekeeping system that requires all employees to log in at the beginning of their shift with a PIN and clock themselves in. The employees clock out for lunch and then back in after their lunch break to ensure compliance with wage and hour break rules. The employees also clock out at the end of their shifts. Sam does not allow employees to perform any work off the clock. Sam maintains an accrual of vacation and sick time for all clerk deputies (county clerk office complies with county vacation/sick policy). At the end of each two week pay period, the bookkeeper runs an employee timecard total for each employee, and from this, prepares a summary sheet that is reviewed and approved by the clerk prior to this summary report being turned over to the county finance office for payroll processing. Since the county clerk is on excess fees, the county finance office prepares a detailed listing of payroll expenditures for reimbursement from the clerk’s fee account each pay period. Sam reviews this report each pay period, verifies that it agrees with his time sheet records for actual hours worked, and Fiona distributes a reimbursement check from the clerk’s fee account to the county finance office.

Maintenance agreements (computer software and copy machine maintenance/support): The clerk has contracts on file for maintenance/support for his office’s BIS computer system and the county-owned copy machine. Sam reviews the invoices from the vendors prior to forwarding them to county finance for payment to ensure the vendors’ charges are in compliance with the contracted prices.

1. Revenues and expenditures in the county clerk’s fee account and county general fund (as it relates to the county clerk) are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets

Sam is responsible for coordinating with the county trustee’s office to ensure that all receipted funds are coded to the correct revenue line items (beer tax, application fees, hotel motel tax, helping school plates, etc.), and the earmarked fees (data processing, vehicle certificate title issuance, and driver license fee) for non-payroll items are coded to the correct object code and expenditure budget. Sam also coordinates with the county finance department to ensure his end of year reserves for unspent earmarked fees are correct. Sam and Fiona review the month-to-date budget expenditure report that county finance sends to them each month to ensure that the county clerk’s non-payroll expenditures are accurate. As noted before, Sam remits an annual leave liability spreadsheet for his office staff to the finance office and auditors to track leave liabilities for financial reporting. Sam and Fiona review all revenue and expenditures (payroll) in the fee account monthly during month-end close to ensure that revenues and expenditures are properly recorded and counted.