Sample Internal Control Assessment

Register of Deeds

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

1. Whether the 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 register of deeds are safeguarded against waste, loss, unauthorized use, or misappropriation
3. Whether revenues and expenditures in the register of deeds’ fee account and county general fund (as it relates to the register of deeds) 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 Register of Deeds’ office consists of the register, a bookkeeper, and five deputy clerks. An in-depth analysis of the internal control environment for the operations of the Sample County register’s office was performed by Butch Cassidy, the Sample County Register of Deeds, his employees and a CTAS field consultant.

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

General:

The register of deeds has a written organizational chart for office employees to show clear lines of authority and written job descriptions for all employees and open positions. The register of deeds 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 employees to reference.

Physical security of the register of deeds’ office:

Butch and all his deputies have a key to the register’s office. However, only Butch and Claire Fraser (the register’s bookkeeper) have a key to the courthouse main door. No one other than these individuals, as well as the county maintenance and janitor supervisors, has 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 register of deeds’ office door. The register of deeds’ vault is locked at the end of the day, and only the register and his deputies are permitted in the vault. Occasionally the janitor cleans the vault with a deputy (or Butch) present.

Purchasing:

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

Purchase Orders:

Claire will fill out all purchase order requisitions with the county finance department. Butch will then sign the requisition and coordinate with the county finance department to ensure there is funding available in the line item for the purchase and the vendor is approved. The county finance department issues the purchase order which authorizes the purchase to be made. Claire will then place the order with the vendor. When the goods arrive, Claire and Butch 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. Blanket purchase orders are used for the monthly bills for the office’s copier lease, postage machine and the internet service. The county finance office is aware that Claire and Butch are the point of contacts for all purchases for the register of deeds’ office, and that no other deputies are authorized to initiate purchases. Office deputies will alert Butch or Claire if they see a need for supplies or office equipment.

Credit/Store cards:

The register of deeds’ office does not have an assigned credit or store card and does not shop at stores that will not accept a county purchase order. The county finance department has store cards that Butch could use if he needed. If the store cards are utilized in the future, Butch would adhere to the county store card purchasing policy.

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 register of deeds coordinates with the county finance department to ensure contract compliance per county purchasing policy. Butch does not sign any vendor contracts as outlined in the county purchasing policy and 1981 Financial Management System purchasing laws.

Emergency purchases:

Butch 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 register’s office complies with these policies. Emergency purchases would be a very rare occurrence in the register’s office

Payroll:

Payroll is authorized each fiscal year through a letter of agreement prepared by Claire and signed by the mayor and Butch after the adoption of the county budget. Butch receives a copy of his office’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 register of deeds operates as an excess fee office, and Butch and Claire will check each quarter to ensure they are in compliance with maintaining only three months’ worth of salaries in the fee account. The excess is turned over to the general fund. Payroll is run through the register’s fee account with the county general fund covering the employer share of FICA, TCRS, and health insurance. The register of deeds provides compensatory time to the non-exempt office staff for the occasional time that a deputy has to stay a little late or come in early to complete paperwork. 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, worker compensation laws and TCRS requirements.

1. Whether county funds, property and other assets that are designated/assigned to the register of deeds’ 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 register of deeds’ office, material expenditure amounts were payroll and maintenance agreements (computer software/hardware 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:

*See the register of deeds’ segregation of duties Excel spreadsheet for more detail on staff receipting/disbursing/accounting assignments.*

The register’s office utilizes a computerized accounting system (BIS) for receipting and accounting. The register utilizes manual checks from pre-numbered check stock that Butch and/or the chief deputy is authorized to sign. The bookkeeper is not authorized to sign checks. Additionally, the BIS software generates pre-numbered refund checks when the register receives overpayments from title companies and occasionally an individual taxpayer recording an instrument through the mail. The office has a written disaster recovery plan, and the computer system is backed up daily. The backup data is stored at BIS offices in a secure location in the State of Virginia. Additionally, Butch keeps a copy of the back-up data stored in a locked filing cabinet in a county office building across the street from the courthouse.

Daily receipting of payments into the office are entered by any deputy except the bookkeeper. Separate cash boxes are maintained by each deputy who receipts funds and are kept at the assigned deputy’s workstation inside their desk drawers (that lock). The cash boxes are counted and balanced each day by the deputies against the BIS daily cash/check report. The register’s office has an overage policy in which overages/shortages under $10 are automatically placed in the over/short account by the software system, and any remaining amount in this account is swept into excess fees at the end of each quarter. Any overage over $10 is investigated, the taxpayer is tracked down (typically a title company), and a refund check is disbursed from the refund account. Any cash shortages in daily receipting (trivial amounts) when a deputy counts out for the day 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 Butch. All deputies are aware of this requirement, because they all sign a written statement that states they are personally responsible for their cash drawer upon issue of the drawer. The BIS system allows for receipts to be voided, but office policy forbids a deputy from voiding their own receipts (must have another deputy log in and void the receipt and this is reviewed by audit logs at the end of each month). After all deputies count out for the day and ensure they reconcile with the daily cash drawer report, the chief deputy posts the daily deposit to the general ledger. He/she also prepares the deposit slip, verifies that the deposit for the day is intact/ties back to the total daily cash/check report, and initials the bank deposit slip. The register takes the deposit to the bank at the end of every work day. If the register is not available to make the deposit, a deputy (not the bookkeeper) makes the deposit at the bank. All cash boxes with the authorized cash on hand ($100 per box, $500 authorized by county commission resolution) are locked back in the office vault at the end of the day. 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, with the exception of the refund checks which are automatically posted when generated by BIS.

Monthly bookkeeping procedures:

Claire performs monthly closing entries and prepares month-end general ledger reports. Butch 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 (revenue report for county trustee and tax reports to the department of revenue). Commissions for the month are posted to the accounting records through the trustee’s monthly report (BIS program). Month-end checks are written, and Butch signs the checks after he reviews and signs all month end reports. Butch reviews the bank reconciliation to ensure all reconciling items are legitimate (no plug numbers). Monthly audit reports are printed from BIS software. Butch and Claire review these reports, paying particular attention to voided receipts or changed amounts in transactions and the reasons for the adjustments.

Annual bookkeeping procedures:

Claire prepares the annual financial report (prepared from BIS software), after she closes for the month of June. Butch signs it and provides it to the county mayor and the county clerk office. All month-end and year-end general ledger reports are placed to be readily available for audit purposes. Butch and the bookkeeper prepare an end-of-year accrued vacation report, which is prepared from payroll source documents for the county finance office and audit for external financial reporting purposes.

Inventory of Office Equipment:

Butch keeps an updated inventory list of all computer equipment assigned to the office and a copy is included in the disaster recovery plan kept offsite. BIS coordinates with Butch to do an annual physical inventory of the computer equipment. The register of deeds’ office does not have any assets assigned to the office that meet capitalization thresholds for external financial reporting.

Internal controls over material expenditure line items:

Payroll- To protect against fraud (ghost employees, unauthorized bonus payments, etc.), all employees have a personnel file maintained by Butch. The register’s office utilizes a time clock system that requires all employees to punch in at the beginning of their shift and out at the end or their shift. The employees clock out for lunch and then back in, after their lunch break, to ensure compliance with wage and hour break rules. Butch does not allow employees to perform any work off the clock. At the end of each two-week pay period, the bookkeeper runs an employee timecard total for each employee, and from this, prepares payroll using QuickBooks payroll (since BIS does not have a payroll program). He/she then enters the pay amounts into BIS as a journal entry (transfer out transaction). All employees (including the register himself) are on direct deposit, so there are no payroll checks. However, QuickBooks prints paystubs that Butch reviews prior to authorizing the payroll run disbursement. The bookkeeper prepares and submits payroll tax reports electronically each pay period and completes quarterly 941 forms and state unemployment returns. Butch reviews and signs these returns prior to them being mailed. Additionally, office policy requires any correspondence (mail) from the IRS to be opened and reviewed by Butch. Claire writes a check to the county finance department for the employee insurance deductions at the end of the month after Butch reviews the deductions. Each year, there is an open enrollment period (January) that all employees must review their benefits they are having payroll deductions for and sign a form that they have reviewed and authorized the deductions.

Maintenance agreements (computer software and copy machine maintenance/support) - The register of deeds has contracts on file for maintenance/support for his office’s BIS computer system and the leased copy machine. Butch 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. Whether revenues and expenditures in the register of deeds’ fee account and county general fund (as it relates to the register of deeds’ office) 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

Claire is responsible for coordinating with the county trustee’s office and finance office to ensure all receipted funds are coded to the correct revenue line items (clerk fees, copy charges, data processing fees), and that expenditures are coded to the correct object code and expenditure budget. Claire also coordinates with the county finance department to ensure the end-of-year reserves for unspent earmarked fees (data processing) are correct. Butch and Claire review the month-to-date budget expenditure report that county finance sends to them each month to ensure that the register’s expenditures (in the county general fund) are accurate and in line with the approved budget. They also verify that the approved original annual budget for the register’s office, along with any approved budget amendments, have been posted to the county finance software correctly (by examining the budget to actual monthly reports that finance provides). Butch and Claire review all expenditures (payroll) in the fee account monthly during month-end close to ensure that all expenditures are properly recorded and accounted for in the register’s fee account.