Internal Control Assessment of Sample County Trustee

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

1. Whether the obligations and costs of the operation are in compliance with applicable law
2. Whether the county funds, property and other assets that are designated/assigned to the trustee are safeguarded against waste, loss, unauthorized use, or misappropriation
3. Whether revenues and expenditures in the trustee’s fee account and county general fund (as it relates to the trustee) 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 Trustee’s office consists of the trustee, a bookkeeper, and three deputies. An in-depth analysis of the internal control environment for the operations of the Sample County Trustee’s office was performed by Nick Saban, the Sample County Trustee, his employees and a CTAS Field Consultant.

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

General:

The trustee has a written organizational chart for office employees to show clear lines of authority (who manages who) and written job descriptions for all employees and open positions. The trustee’s office 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 trustee’s office:

Nick Saban, county trustee, and all his deputies have a key to the trustee’s office. However, only Nick and his chief deputy 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 trustee’s office door. The trustee’s vault is locked at the end of the day, and only the trustee and his deputies are permitted in the vault. Occasionally the janitor cleans the vault with a deputy (or Nick) present.

Purchasing:

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

The trustee will fill out and sign all purchase order requisitions with the county finance department and then 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. Nick will then place the order with the vendor on the internet (office depot). When the goods arrive Nick will verify that the goods received are what is 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. On the rare occasion that Nick needs to buy an item that is not available from office depot and is at a local brick and mortar store, he will get a purchase order from finance and go to the local store himself, bringing back the invoice to the finance office for payment after he has received the goods. Any unused portion of the purchase order is then closed. The trustee’s office does not utilize blanket purchase orders.

Store cards:

The trustee’s office does not have an assigned store credit card, however, Nick is authorized to utilize the Walmart card that is assigned to the county finance office. Nick has never utilized the county store card but if he did in the future he would get a copy of the county finance department’s store card policy and comply with it.

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

Emergency purchases:

Nick 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 trustee’s office complies with these policies. This would be a very rare occurrence in the trustee’s office as the county bid limit is now set at $10,000.

Payroll:

Payroll is authorized each fiscal year through a letter of agreement that is prepared by the trustee and signed by the mayor and Nick after the adoption of the county budget. Nick receives a copy of the trustee’s office 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 trustee turns over all his fees monthly to the county general fund. The county finance office processes the trustee’s office payroll each pay period and takes care of all state and federal payroll tax returns and issuing W2s. The trustee’s employees are all regarded as non-exempt employees and are given comp time if they work more than 40 hours a week. All payments to employees are paid through payroll line items (not vendor line items) in order to comply with IRS tax code for payroll taxes, state unemployment compensation, worker comp laws and TCRS requirements.

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

Overview: The audited financial report detailed expenditure statements are reviewed to identify expenditures of material amounts. In the trustee’s office, material expenditure amounts were: payroll and postage charges (for mailing tax notices). 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 Excel spreadsheet for detail listing of segregation of duties over receipting, disbursing, investments, journal entries, and ACVs.*

The trustee’s office utilizes a computerized accounting system (LGDPC) for receipting and accounting. The trustee utilizes manual checks from pre-numbered check stock that the trustee 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 in a secure location off site.

Daily receipting of payments into the trustee’s office are entered by any county trustee deputy except the bookkeeper. Separate locked 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 LGDPC daily drawer checkout report. Any large cash payment over $10,000 requires the trustee to complete and file a Form 8300 with the IRS, which Nick will complete. Any shortages in daily receipting (trivial amounts such as less than a dollar) requires 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 Nick. After all deputies have counted out and reconciled with the daily drawer checkout reports, the bookkeeper will prepare the bank deposit slip to reflect all funds collected and initials the bank deposit slip. The trustee then takes the deposit to the bank at the end of every work day. If the trustee is not available to make the deposit, then a deputy (not the bookkeeper) makes the deposit at the bank. When the trustee returns from the bank, he gives the bookkeeper the stamped deposit slip and bank transaction receipt and she compares the amount deposited with the bank with the total amount physically collected for the day to ensure that the deposit was made intact at the bank. At the end of the workday, 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. Checks are written at various times during the month by the trustee. All checks are official pre-numbered checks that are manually entered into the accounting system by the bookkeeper.

Daily bookkeeping procedures:

Sally Jane (trustee bookkeeper) will post the daily activity (property taxes and miscellaneous receipts) to the General Ledger through a menu option on the LGDPC software that allows all collections to be prorated to the various funds of the county. The daily deposit is then entered along with any checks written into the accounting ledger and an end of day trial balance is printed out and reviewed by Sally Jane and Nick Sabin.

Monthly bookkeeping procedures:

Sally Jane performs monthly closing entries (trustee commission, school commission, transfers, etc.) and prepares month to date reports. The trustee opens up the monthly bank statements and reviews the statement to ensure that deposits are being made with the bank timely and then reviews the copies of all checks to verify that all disbursements were made to legitimate vendors/agencies and then gives the bank statements to the bookkeeper, who then reconciles the ledger to the bank statement. The bookkeeper then reconciles the subsidiary ledgers (sweep accounts, investments, accounts receivable (tax relief), and fee account. Nick reviews all bank reconciliations and reconciling items to ensure that the accounting records balance with the bank. Sally then reviews and reconciles the tax aggregate with what was actually receipted (daily receipt totals) during the month to ensure accuracy. Sally and Nick then double check to ensure the monthly miscellaneous receipts revenues agree with what was actually receipted during the month to ensure that revenue line items are accurate. Sally and Nick then review disbursements for each fund (on the month to date report) and compare these amounts to total daily disbursements for the month. Tax aggregate audit logs for the month are printed out and Nick reviews and signs off on these reports. Nick then prints off all journal entries and reviews and signs off on these as well. Once all reports are reviewed and reconciled by the trustee and his bookkeeper, Sally performs the month end closing process steps (actual computer close) for the office’s LGDPC software program. Copies of the month to date reports are printed out for the county finance department.

Annual bookkeeping procedures:

Sally Jane prepares the annual trustee report (prepared from LGDPC software) after she closes for the month of June and Nick reviews and signs it and provides this to the county mayor and the county trustee and county commission. All monthly and end of year reports are placed in the trustee’s office to be readily available for audit purposes. County finance does payroll processing for the trustee’s office and they prepare an end of year accrued vacation/comp/sick leave report for external financial reporting purposes.

Inventory of Office Equipment:

Nick keeps an updated inventory list of all computer equipment assigned to his office and a copy of this is included in his disaster recovery plan that is kept offsite. LGDPC coordinates with Nick to do a physical inventory annually of the computer equipment. Additionally, the county capital asset policy requires the trustee to inventory, tag and track all assigned assets over $100 of cost and turn in a copy of this inventory to the county mayor after the trustee does the annual physical inventory. The trustee’s office does not have any assets assigned to the office that meet capitalization thresholds ($10,000) for external financial reporting.

Internal controls over material expenditure line items:

Payroll - to protect against fraud (ghost employees, unauthorized bonus payments, etc.) all county trustee employees have a personnel file maintained by the county finance department. The trustee utilizes a manual timekeeping system that requires each employee to track their time in and out on a manual timesheet that they sign at the end of each two week pay period. At the end of each pay period, the trustee reviews each employee’s timesheet for accuracy and signs to approve payment. The signed and approved timesheets are then turned over to the county finance office for payroll processing. The trustee and his bookkeeper review a monthly budget to actual account analysis to ensure they are in budget for payroll. The finance office has an open enrollment period annually where each county employee reviews all payroll deductions and authorizes any deductions from their paychecks. All employees are on direct deposit for payroll and receive a payroll stub each payday.

Postage - the trustee will purchase stamps, after he gets a purchase order, for mailing tax cards, receipts (when requested), delinquent notices, and a small amount of miscellaneous office mail. Stamps are stored in the office safe and secured after hours. Nick orders 10 rolls at a time and knows from experience as the trustee the normal usage of stamps and would spot shrinkage if it occurred.

Bank collateral for trustee bank accounts:

Nick Sabin refuses to place any public funds that exceeds FDIC covered amounts into a financial institution that does not participate in the state collateral pool.

Compliance with State Statute (T.C.A 5-8-201) to evaluate trustee bank accounts

In compliance with state statute and to ensure revenue is not lost, the trustee solicits competitive quotes for potential interest earnings on the office’s operating bank accounts at least once every four years and not less than once every term of office.

Delinquent taxes:

If a taxpayer comes in to pay their delinquent property taxes after taxes become delinquent on March 1st of each year, the trustee’s office software will automatically calculate penalties and interest due. Nick will review the office audit logs monthly to ensure there were no adjustments made to the interest and penalties paid. Every year on either March 31 or April 1st, the trustee turns over all delinquent prior year real and personal property taxes owed to the delinquent tax attorney. Once the taxes due are turned over to the delinquent tax attorney, the trustee will no longer accept payments for those amounts due (i.e. the trustee deputies will send the taxpayer to the clerk and master’s office).

Accounts receivables for ACVs:

See Excel spreadsheet for segregation of duties over ACVs. The trustee’s office maintains a file for each taxpayer on tax relief that includes name, address of property, income and other qualifying information. The bookkeeper posts the current month end A/R balance and a second trustee deputy maintains the back-up files and assists the bookkeeper with maintaining the accounts receivables and filing for reimbursement from the state.

Property tax freeze program:

A trustee deputy is assigned to coordinate with the county property assessor to maintain files for every taxpayer on the tax freeze program. Nick reviews and signs to approve every individual on the program annually with the deputy and the property assessor to ensure only qualified taxpayers are placed (and maintained) on the program.

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Property tax levy:

Each year the county finance office sends the trustee the property tax levy that was approved by the county commission, Sally Jane will enter the property tax levy into the LGDPC accounting software to ensure a correct proration of the property tax for the various county funds. Nick then reviews the entered levy to ensure accuracy.

Sales tax proration:

Nick will manually prorate the sales tax that comes from the state via ACH each month to the various towns in the county and to the county funds (school funds) that are earmarked sales tax funds. Once Nick manually prorates sales tax, Sally will post these amounts, after she reviews Nick’s calculations, into the LGDPC software and then manual checks are written to the towns for their portion that they are owed per statute. A receipt is generated when Sally posts these amount and these receipts are provided to the county finance office to show what the county funds received.

Nick and Sally coordinate with the county finance office to ensure that revenues and expenditures that are reported in the county funds are accurate with receipted funds and disbursements. Particular attention is paid to grant revenue and expenditures to ensure that grant funds are properly coded.

Investments:

See Excel spreadsheet for investment internal control. All investments are properly collateralized and only investments that are authorized by state statute are utilized. If Nick had a question about the legality of a potential investment vehicle, he would consult the state treasurer for guidance.