



**County Technical Assistance Service**  
**INSTITUTE FOR PUBLIC SERVICE**

# INTERNAL CONTROLS

## COUNTY CLERKS

2016

**CTAS.TENNESSEE.EDU**

# INTERNAL CONTROLS

January 2016

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## INTRODUCTION

As governmental entities across the county have seen an increase with waste, fraud and abuse the Tennessee General Assembly took proactive steps this legislative session by passing Public Chapter 112 which amended T.C.A. 9-18-102(a). The amendment provides the following:

***Whether obligations and costs of the operation are in compliance with applicable law; (II) 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 and (III) Whether revenues and expenditures in the county clerk's office fee account and county general fund (as it relates to the county clerk's 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.***

To assist TN counties with compliance CTAS has worked diligently to prepare an Internal Controls toolbox. The toolbox consists of the following tools: (1) internal controls questionnaire, (2) internal controls assessment, (3) segregation of duties checklist, and 4) sample internal controls risk assessment. In addition to the tool box CTAS has prepared a 4 hour internal control class. Beginning January 7, 2016, CTAS will begin the internal controls training on a statewide basis and concluding in March.

We at CTAS hope each elected official and their staff take advantage of our training and our tool box to prepare their internal controls that will allow them to comply with PC 112 and to provide a better system of financial management.

COUNTY CLERK  
SAMPLE INTERNAL CONTROLS QUESTIONNAIRE  
January 2016

## Sample Internal Control Assessment Questions

### County Clerk

***Summary: The following assessment questions are divided into three parts to address the changes in T.C.A. 9-18-102(a): (I) Whether obligations and costs of the operation are in compliance with applicable law; (II) 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; and (III) Whether revenues and expenditures in the county clerk's office fee account and county general fund (as it relates to the county clerk's 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.***

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

##### General:

- a) Does the office have a written organizational chart?
- b) Do the office employees have written job descriptions?
- c) Does the office have a written, updated personnel policy and is this provided to the office employees?
- d) Does the office have a copy of the adopted county ethics policy available for the official and the office employees?

##### Physical security of the office:

- a) Who has a key to the county clerk's office?
- b) Who has a key to the main door of the courthouse?
- c) How often are the locks changed?
- d) Is the office secured with cameras?
- e) Is there a vault in the office?
- f) When is it locked?
- g) Who has access to the vault?

##### Purchasing:

- a) What is the adopted county purchasing policy?
- b) Who fills out purchase order requisitions?
- c) Who coordinates with the county finance department for purchase orders?
- d) How is it known that funding is available?
- e) Who has a list of approved vendors?
- f) Who authorizes purchase orders?
- g) Who places orders?

- h) Who verifies the goods received?
- i) Who signs the invoice?
- j) Who gets the invoice?
- k) Are charge accounts allowed at local stores?

Store cards:

- a) Does the clerk's office have a store (e.g. Walmart, Lowes) card?
- b) If not, does it have access to other options?
- c) Who is authorized to use the store card in the county clerk's office?
- d) What must be filled out and sign before the card is checked out?
- e) What is returned after the purchase to county finance?
- f) How is unspent money on the purchase order dealt with?

Contracts:

- a) Who signs all county contracts dealing with purchasing?
- b) How are contracts over one year in length approved?
- c) How is contract compliance ensured for the county purchasing policy?

Emergency purchases:

- a) Who coordinates with the county finance department in the event of emergency purchases?
- b) What policy addresses emergency purchases?

Payroll:

- a) How is payroll authorized?
- b) How much money in salaries is the clerk's office authorized to hold?
- c) Who is in charge of making sure the office is in compliance with that policy?
- d) How often is this checked?
- e) What happens to the excess funds?
- f) Who processes the county clerk's office payroll?
- g) How does the clerk's office reimburse the county finance department?
- h) Does the county clerk provide comp time or overtime?
- i) What type of account is used to pay employees?

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

Fee account and office cash operations:

- a) What system does the clerk's office use for receipting and accounting?
- b) What type of checkbook is used in the office?
- c) Who is authorized to sign checks?
- d) How is the system backed up?
- e) Who can receipt payments?

- f) Are all individuals that are authorized to receipt and/or have access to county funds covered by the county blanket liability bond/insurance? This would include interns, temporary and seasonal employees, part time workers from a human resource agency.
- g) How many cash boxes are used in the office?
- h) Do multiple people use the same cash box?
- i) How often are the cash boxes counted and balanced?
- j) What happens to overages?
- k) Who investigates large shortages?
- l) How are small shortages dealt with?
- m) Who prepares bank deposit slips and verifies the deposit matches with the total daily cash/check report?
- n) Who takes the deposit to the bank?
- o) How often is this done?
- p) Who makes the deposit in an absence?
- q) Where are cash boxes put at the end of the day?
- r) What is the authorized amount for cash on hand?
- s) Who writes checks?
- t) Are the checks official and pre-numbered?
- u) How are they recorded?

Daily bookkeeping procedures:

- a) Who posts daily activity to the general ledger?
- b) Are each day's receipts, invoices and transactions closed?
- c) Is the daily deposit entered in the ledger?
- d) Is an end of day trial balance printed and reviewed each day?
- e) Are all written checks printed and reviewed each day?

Monthly bookkeeping procedures:

- a) Who performs monthly closing entries and prepares month end general ledger reports?
- b) Who reviews the monthly bank statement to ensure that deposits are being made with the bank as required?
- c) Who reviews checks to ensure disbursements were sent to approved vendors/agencies?
- d) Who reconciles the bank statement to the ledger?
- e) Who prepares and prints reports to other agencies?
- f) How are they prepared (printed/manual)?
- g) How are clerk commissions posted?
- h) Who reviews and signs all month end reports?
- i) Who receives a copy of the adopted office's budget from the county finance or mayor's office?
- j) How the clerk's office is kept up to date in terms of the year to date budget to actual expenditures for the office? Does the office receive a monthly report from the county finance or mayor's office? Who in the clerk's office reviews these monthly reports?
- k) Who reviews the bank statement to ensure all reconciling items are legitimate?
- l) Who authorized ACH payments?

- m) Who reviews monthly audit reports?

Annual bookkeeping procedures:

- a) Who prepares the annual financial report?
- b) Who signs this report?
- c) Who receives copies of the report?
- d) Who prepares year-end leave accrual report?
- e) Is this report filed with the county finance/mayor's office?

Plate, title stock, and detail inventory:

- a) How are shipments entered?
- b) How does the office keep up with the inventory?
- c) Who does it?
- d) Are inventory reports sent to the state department of revenue?
- e) Who sends them?
- f) Who reports missing stock?
- g) In the event of missing stock, is a fraud reporting form sent to the state comptroller's office?

Inventory of office equipment:

- a) Who keeps an updated inventory of all computer equipment?
- b) Is a copy kept in the disaster recovery plan?
- c) Where is the disaster recovery plan kept?
- d) Who is involved in an annual physical inventory of the computer equipment?
- e) Does the office have any assets that meet capitalization thresholds for external financial reporting?

Material Expenditures - Line Items

Payroll:

- a) How does the office protect itself against fraud?
- b) How do employees record their time?
- c) Who approves employees' time records?
- d) Are employees allowed to work off the clock?
- e) Who maintains an accrual of vacation and sick time for employees?
- f) Who runs an employee timecard total and summary sheet for each person?
- g) How often is this done?
- h) Who reviews it?
- i) Who reviews the reimbursement report from the county finance department?
- j) Who disburses the reimbursement check?

Maintenance agreements:

- a) Are contracts on file for maintenance/support for the computer system and copy machine?
- b) Does anyone review the invoices from vendors prior to forwarding them to county finance?

III Whether revenues and expenditures in the county clerk's office fee account and county general fund (as it relates to the county clerk's 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.

Revenue and expenditures:

- a) Who is responsible for coordinating with the trustee office to ensure all receipted funds are coded to the correct revenue line items and earmarked fees for non-payroll items are coded to the correct object code and expenditure budget?
- b) Who is responsible for end of the year unspent earmarked fees?
- c) How does the office know its expenditures are accurate?
- d) Who checks it?

COUNTY CLERK  
SAMPLE INTERNAL CONTROLS ASSESSMENT  
January 2016

# 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:

- I. Whether obligations and costs of the operation are in compliance with applicable law
- II. Whether county funds, property and other assets that are designated/assigned to the county clerk are safeguarded against waste, loss, unauthorized use, or misappropriation
- III. Whether revenues and expenditures in the county 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.

- I. 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 Sam will 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.

I. 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.

- III 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.

COUNTY CLERK  
SAMPLE SEGREGATION OF DUTIES CHECKLIST  
January 2016

County Clerk  
Internal Control Checklist  
Receipts

See Column Instructions Below												
Checks Received in the Mail		Daily Receipting and Depositing										
Open Mail, Stamp Checks for Deposit Only, and Make a List of Checks	Issue Receipts for Mail-in Checks	Maintain Separate Cash Drawers	** *** Issue Receipts	Stamp All Checks for Deposit Only when Received	Post Receipts to Accounting Records	Verify that Mail-in, and Manual Receipts were Recorded	Count Cash Check Out to Certain Amount of Cash	Deposit Intact Verify Cash Check Out and Make Up Daily Deposit	Carry Deposit to Bank	Verify Deposit Slip with Check-out Sheets and Amt. Recorded	Examine Audit Log and Explain Each Entry	Determine that the Trial Balance is in Balance
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
XX	X	X	X	X	X		X		XX		XX	XX
X	X	X	XX	XX	XX		XX		X			
X	X	X	XX	XX	XX		XX	XX				
X	X	X	XX	XX	XX		XX			X		
X	X	X	XX	XX	XX		XX					
X	X	X	XX	XX	XX		XX	XX				
						X				XX	X	X

Five-Person Office:

Official
Employee #1
Employee #2
Employee #3
Employee #4
Part-Time Employee
Employee #4 - Bookkeeper

Column Instructions:

XX	The Person indicated by the XX is the preferred person to perform the procedure.
**	For computerized systems. Always follow guidance from Division of County Audit Information Systems Auditors with regard to Passwords, Computer Access, Backups, etc.
***	Note: A Sign should be conspicuously posted in the office that states, "You must receive an official receipt or your transaction is not complete".

Checks Received in the Mail -

(1)	Open mail, Stamp Checks for "Deposit Only", Official's Account Number should be on the Stamp. Record the date, Make a List of All Checks by Name and Amount. (Checks can be scanned as an alternative to making a list) Present Checks to person responsible for issuing the receipt. Keep the List secure until all receipts are verified as posted (Column 6).
(2)	Issue receipts for the mail-in checks.

Daily Receipting and Depositing -

(3)	Each employee should have a separate cash drawer. (Employees should not share passwords) (It is preferable for each cash drawer to have a lock.)
(4)	Issue Receipts for Collections. (Notice that in the Two Person Office both employees are allowed to receipt)
(5)	Stamp All Checks for "Deposit Only" immediately upon receipt. Do not wait until the end of the day.
(6)	Update the accounting system for the day's receipts or manually post receipts to accounting records. (It is preferable for the bookkeeper to perform this procedure at the end of the day, but in many computerized systems receipts are posted automatically. This is why all employees who write receipts are included in this column.)
(7)	Examine accounting records. Determine that all mail-in (use list prepared in Column 1) and manual receipts were recorded.
(8)	Each employee has check out to a certain amount of cash (e.g. \$100). This procedure should be performed daily if practicable. In a manual system, use of a standard check-out sheet is advised. The computer may generate the check-out sheet in a computerized system. Each employee should sign or initial his/her check-out sheet.
(9)	Combine the money from all drawers and complete a deposit slip. The deposit slip should be itemized. The total deposit amounts should agree with the check-out sheets in Step 9. The Deposit should be made "intact". This means that the deposit should equal all receipts for a given day. (As an alternative, a deposit could be made up for each cash drawer rather than making a combined deposit)
(10)	Carry the deposit to the bank and obtain a deposit slip.
(11)	Verify that the amount on the slip agrees with the check-out sheets and the amount recorded on the accounting records. Initial and date the deposit slip to indicate the review.
(12)	Examine the audit log from the computerized system. Determine why transactions were deleted or changed. (It is preferable to perform this procedure daily, but the procedure should be performed at least each month. It is also preferable to print the report and write a brief explanation.) Initial and date the report after review or otherwise document that you examined the audit log if it was not printed.
(13)	Make sure the debits and credits on the trial balance agree. This should be performed each day.

County Clerk

Internal Control Checklist

Issuing Non-Payroll Checks and Reconciling Bank Statements

See Column Instructions Below

Issuing Checks			Monthly Bank Reconciliation		
Non-Payroll Checks	Signature Authority	Post Checks to Accounting Records	Receive, Open, and Review Bank Statements and Cancelled Checks	Perform Bank Reconciliation	Review Bank Reconciliation and Trace Reconciling Items and Balance to Acct. Records
Write Checks	Verify Amt. Sign and Mail Checks				
(1)	(2)		(4)	(5)	(6)
	XX		XX		XX
	X				
			X		X
X		X		X	

Five-Person Office:

Official

Employee #1

Employee #2

Employee #3

Employee #4 - Bookkeeper

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.

Issuing Checks -

(1) Physically prepare the checks for signature.

(2) Determine the reason and examine documentation for the issuance of the check. Sign the checks and maintain possession of the checks. Mail the Checks. (Blank Checks should never be signed.) (The Official should sign and mail checks except for brief periods when the Official is absent. The Official should examine all checks issued during his/her absence.)

(3) Record the checks in the accounting system.

Monthly Bank Reconciliation -

(4) A person who is **not** responsible for reconciling the bank should open the bank statement and review it for unusual transactions, bank transfers, bad checks, and if possible, cancelled checks. Trace deposits-in-transit, bad checks, outstanding debits or credits, outstanding checks, etc. from the **previous bank reconciliation** to the current bank statement. Ensure that interest earned was posted to accounting records if applicable. Initial and date the statement indicating that you opened and reviewed the statement.

(5) Obtain the Bank Statement after it has been initialed and reviewed as directed in Step 4. Perform the bank reconciliation. This should be done monthly.

(6) The person who is **not** responsible for reconciling the bank should review the bank reconciliation. Trace the balance on the bank reconciliation to the general ledger. Make sufficient inquires to understand reconciling items (i.e. Deposits-in-transit, bad checks, outstanding debits or credits, interest earned, large or unusual outstanding checks, etc.). Trace reconciling items to underlying accounting records if explanations are not adequate. Initial and date the reconciliation to indicate the review.

County Clerk  
Internal Control Checklist  
Investment Transactions

See Column Instructions Below													
Investment Purchases							Maturing Investments						
Investment Decision	Write Check for Investment	Sign Check/ Purchase Investment	Inspect Investment and Record in Investment Ledger	Post Investment to the Accounting Records	Determine that the Transaction has been Properly Recorded	Place Investment Document in a Secure Location	Retrieve Investment Document	Verify Investment Maturity If Applicable Record in Investment Ledger	Investment Decision Redeem or Renew Investment	Inspect Redemption/ Renewal Documents and Record in Investment Ledger	Post Investment Maturity to the Accounting Records	Determine that the Transaction has been Properly Recorded	Place Investment Renewal Document in a Secure Location
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Official	X		X			X			X			X	
Employee #1							X						XX
Employee #2													X
Employee #3													
Employee #4 - Bookkeeper		X		X	X			X		X	X		

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.

Investment Purchases -

- (1) The Official should make Investment decisions.
- (2) The Official should authorize the employee to issue a check for the amount of the Investment drawn on the appropriate bank.
- (3) The Official should purchase the Investment.
- (4) The particulars (i.e. Date, Maturity, Amount, Bank, Interest Rate, etc.) should be recorded in an Investment Ledger (if applicable). The balance for Investments on the Investment Ledger should agree with the Investment balance on the General Ledger after procedure 5 has been performed.
- (5) Record the Investment in the accounting records.
- (6) Determine that the Investment transaction has been correctly recorded in the Investment ledger and the general ledger. Determine that the Investment ledger and general ledger agree.
- (7) Place the Investment document in a secure location.

Maturing Investments -

- (8) Retrieve the Investment document from the secure location.
- (9) Present the maturing Investment to the appropriate Employee for verification of the maturity with the Investment ledger. Remove maturing Investment from the Investment ledger.
- (10) Redeem or renew the Investment at the bank.
- (11) Remove the matured Investment from the Investment ledger balance. Record any new Investment. The particulars (i.e. Date, Maturity, Amount, Bank, Interest Rate, etc.) should be recorded in the Investment ledger. The balance for Investments on the Investment Ledger should agree with the Investment balance on the General Ledger after procedure 12 has been performed.
- (12) Record the maturity and any renewal on the Accounting Records.
- (13) Determine that the Investment transaction has been correctly recorded in the Investment ledger and the general ledger. Determine that the Investment ledger and general ledger agree.
- (14) Place the Investment document in a secure location.

County Clerk  
Internal Control Checklist  
Payroll Checks

See Column Instructions Below								
Issuing Payroll Checks								
Collect Time-sheets. Calculate Hours and Leave	Approve Leave Balances and Time-sheets	Write Checks	Manual System Record the Checks in the Payroll Ledger	Determine that Payroll Deductions Clear out for each Payroll	Determine Amount of Payroll Tax Deposit	Approve and Make Payroll Tax Deposit	Signature Authority Verify Amt. Sign and Mail/Deliver Checks	Post Checks to Accounting Records
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

*Five-Person Office:*

Official	X			XX		XX	XX	
Employee #1	XX			X				
Employee #2							X	
Employee #3	X					X		
Employee #4 - Bookkeeper		X	X		X			X

**Column Instructions:**

XX The Person indicated by the XX is the preferred person to perform the procedure.

Issuing Payroll Checks -

- (1) Collect the time sheets and calculate hours and leave balances if applicable.
- (2) Sign the time sheets indicating approval of the hours presented and leave calculations if applicable.
- (3) Obtain the approved time sheets, calculate salaries and deductions, and physically issue checks for signature.
- (4) Record the Gross Pay, Payroll Deductions, and Net Pay in the Payroll Ledger if applicable.
- (5) Determine that all payroll deductions are paid to proper payee and that payroll deductions clear out for each payroll period.
- (6) Determine the amount of the Payroll Tax Deposit using the payroll ledger or other method.
- (7) Electronically make the payroll tax deposit.
- (8) Verify the amount and sign the payroll checks, mail payroll deduction checks, and mail or deliver payroll checks to employees. (Blank checks should never be signed.)  
(The Official should sign and mail/deliver checks except for brief periods when the official is absent. The Official should examine all checks issued during his/her absence.)
- (9) Record checks in the accounting system.

**County Court**  
**Internal Control Checklist**  
**Journal Entries**

**See Column Instructions Below**

Entering Journal Entries and Transfers			
Prepare and Document the Journal Entry	Approve Journal Entries	Post Journal Entries to Accounting Records	Review Accounting Records for Proper Posting
(1)	(2)	(3)	(4)

***Five-Person Office:***

Official		X		XX
Employee #1				
Employee #2				
Employee #3				X
Employee #4 - Bookkeeper	X		X	

**Column Instructions:**

**XX** The Person indicated by the XX is the preferred person to perform the procedure.

**Entering Journal Entries and Transfers -**

(1)	Use a journal entry form to record debits and credits and to explain the transaction. Attach documentation as necessary.
(2)	Sign the journal entry form to indicate approval of the journal entry, the explanation, and the documentation.
(3)	Record the journal entry in the accounting system.
(4)	Review the accounting records to determine that the journal entry was properly recorded.

# APPENDIX



# *State of Tennessee*

## **PUBLIC CHAPTER NO. 112**

### **SENATE BILL NO. 413**

**By Haile**

Substituted for: House Bill No. 187

**By Hawk**

AN ACT to amend Tennessee Code Annotated, Section 9-18-102, relative to internal controls for local governments.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 9-18-102(a), is amended by deleting the subsection in its entirety and by substituting instead the following language:

(a) Each agency of state government and institution of higher education along with each county, municipal, and metropolitan government shall establish and maintain internal controls, which shall provide reasonable assurance that:

- (1) Obligations and costs are in compliance with applicable law;
- (2) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- (3) Revenues and expenditures 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.

SECTION 2. This act shall take effect June 30, 2016, the public welfare requiring it.

SENATE BILL NO. 413

PASSED: March 30, 2015

  
\_\_\_\_\_  
RON RAMSEY  
SPEAKER OF THE SENATE

  
\_\_\_\_\_  
BETH HARWELL, SPEAKER  
HOUSE OF REPRESENTATIVES

APPROVED this 10<sup>th</sup> day of April 2015

  
\_\_\_\_\_  
BILL HASLAM, GOVERNOR

## *Sample Risk Assessment for TN County Office and/or Department*

Review, gain an understanding of, and document the internal control procedures that your office already has in place and is currently practicing. Internal control is defined as a process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. Internal controls should address specific risks associated with the day-to-day operations and transactions in the county offices that will be utilizing or accounting for public funds and assets. The objectives of your internal controls should be to provide reasonable assurance that your office can document and demonstrate the following:

- I The obligations and costs of the operation are in compliance with applicable law
- II To ascertain if county funds, property and other assets that are designated/assigned to the office/department are safeguarded against waste, loss, unauthorized use, or misappropriation
- III Revenues and expenditures 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

Hold a formal meeting with key employees of the county office, if a larger office. Consider including the county finance and/or county trustee office in the sections that deal with financial reporting issues that have an impact on their offices as well.

- Obtain the county's most recent annual financial and compliance audit and review applicable audit findings that identified significant or material weaknesses in internal controls of the county office. Have these identified internal control weaknesses been corrected or has compensating internal controls been put into place to offset these identified weaknesses?
- Ask yourself (and the group if appropriate) their thoughts on how assets and funding assigned to the county office could possibly be misappropriated, wasted or abused. You, or the group, should brainstorm about the possibility of circumvention of the internal controls that are in place and discuss any needed changes to policies and procedures to eliminate/reduce significant internal control weaknesses that have been identified by the internal control assessment that was performed in-house.
- If delegating authority to make changes, determine who will be the senior level employee in your office designated for addressing internal control weaknesses identified by the external audit as well as issues that were identified by the internal control assessment that was performed in-house. Be sure to involve legal counsel to

review any updates to office written policies (personnel, purchasing, etc.) prior to any official policy change.

- Based on any corrective actions and updates to policies and procedures effecting internal controls of the office, update your written internal control assessment to reflect these changes made.
- Assign senior level staff (if not yourself) to continue to monitor the updated internal control procedures to help ensure compliance with adopted policies and procedures

The group should have at least one formal 'follow up' meeting in the near future to determine if all the material identified internal control risks that were identified in the first meeting have been mitigated. The group should also consider having at least an annual management meeting to ensure that any concerns that arise dealing with internal control issues are addressed, objectives of the office are being met, and proper accounting and reporting requirements are being achieved. If the office is currently receiving federal grant funding, it is recommended that the senior accounting official consult with the State or Federal department, which the grant funding is being received from, prior to each meeting to identify any new internal control or reporting issues that need to be addressed by county management at this time.

## **The \$54 million fraud**

What CPAs can learn from the fleecing of Dixon, Ill.

July 31, 2013

*by Kelly Richmond Pope, CPA, Ph.D.*

In the wake of the largest municipal fraud in U.S. history, the questions still swirl. How could the treasurer of an Illinois town with an annual budget of \$6 million to \$8 million embezzle nearly \$54 million over two decades? How could such a scam go undetected in annual audits by two independent accounting firms and in annual audit reviews by state regulators?

What can the accounting profession learn to prevent or catch similar schemes in the future?

This article looks at how a quarter horse enthusiast named Rita Crundwell drained the coffers of Dixon, Ill. It examines the circumstances that laid the foundation for the fraud, the strategies she used to perpetrate it, and the red flags that should have signaled something was amiss.

### **The Crundwell chronicle**

Crundwell was a longtime employee of the city of Dixon, her hometown, before she started stealing from its coffers. She began working for the town in 1970, while she was still in high school, and quickly moved into a finance role. In 1983, she was named treasurer and comptroller.

She launched the fraud scheme on Dec. 18, 1990, when she opened a secret bank account in the name of the City of Dixon. Crundwell was the only signatory on the account, which was called the RSCDA - Reserve Fund. The initials stood for Reserve Sewer Capital Development Account, and Crundwell was the only person who knew it existed.

She began transferring funds from city accounts into the RSCDA account in 1991. That year, Crundwell transferred more than \$181,000 into the RSCDA account.

The rate of theft escalated over the 21 years she pilfered money from the town.

### **Trust is not an internal control**

The city of Dixon placed a great deal of trust in Crundwell—too much, as it turned out. The city, which does not have a city manager, gave Crundwell wide rein over its finances and set the stage for her massive fraud.

Occasionally, Dixon employees or leaders would question Crundwell about financial shortfalls. She would respond that the state of Illinois was late with payments to the city. The excuse was believable because the state sometimes was as much as a year late with payments. The problem was that no one independently verified Crundwell's story. City officials relied on annual audits by independent audit firms as well as annual reviews by the state of Illinois. The town's finances were given the OK in those reviews, and Crundwell continued to move city money into her accounts.

“Raising questions is a start, but making sure these questions are answered appropriately is key,” said Kelly Paxton, a licensed private investigator for Denver-based Financial CaseWorks LLC.

Crundwell built trust with the community by building a large quarter horse breeding operation that employed many residents and through her interactions with her neighbors and co-workers. People asked to describe Crundwell often said things such as:

- She was sweet as pie;
- You couldn't find a nicer person on the face of the planet to talk to;
- She was the nicest person in the world to work for;
- If you needed something, she'd give it to you; and
- If you thought something needed to be done, she did it.

The lesson painfully learned by Dixon was that trust without verification is a recipe for disaster. CPAs can learn from that mistake as well as a couple of fraud red flags that warranted, but failed to receive, closer scrutiny.

### **Red Flag No. 1: Failure to segregate duties**

The segregation of duties is a critical aspect of any organization's internal control program. In Dixon, Crundwell controlled too much of the financial reporting process. She was able to receive, sign, and deposit checks with little oversight from any other city official. Under the Dixon commissioned government, the mayor and four part-time officers oversee their own divisions, which enabled Crundwell to oversee the majority of city financial functions. Crundwell balanced the checkbook, made deposits, and obtained all financial statements sent to the city of Dixon mailbox, over which she had full control. While the city of Dixon was suffering through yearly budget deficits and spending cuts (see “The Dixon Fraud Timeline”), Crundwell had the opportunity to embezzle amounts as large as \$5.8 million in 2008.

Dixon's failure to segregate duties allowed Crundwell to set up and operate a fairly simple fraud scheme. In December 1990, Crundwell opened the aforementioned RSCDA bank account in the name of the city of Dixon, with the city of Dixon as the primary account holder and “RSCDA c/o Rita Crundwell” stated as the second account holder. Between December 1990 and April 2012, Crundwell transferred funds from Dixon's money market account to various other city bank accounts and transferred city funds into her RSCDA account. The Illinois Fund, a money market mutual fund available to Illinois municipalities, contained revenues from taxes, fees, and federal grants that were deposited by each city. Crundwell would regularly wire money from the Illinois Fund into several city accounts and then transfer money from the accounts into the Capital Development account.

With the increase in Capital Development funds, Crundwell would write checks made out to “Treasurer” and deposit the funds into the RSCDA account. Crundwell created 159 fictitious invoices purported to be from the state of Illinois to show the city's auditors that the funds she was fraudulently depositing into the RSCDA account were being used for legitimate purposes. She repeatedly transferred city funds into the RSCDA account and used the money to pay for her personal and private business expenses, including horse farming operations, personal credit card payments, real estate, and vehicles.

## **Red Flag No. 2: Lavish lifestyle**

Exactly what prompted Crundwell to start stealing from Dixon has not been revealed, but she spent much of her ill-gotten gains in building a quarter horse breeding operation that produced 52 world champions as recognized by the American Quarter Horse Association (AQHA). The AQHA named Crundwell its breeder of the year eight consecutive years before her arrest in 2012.

Crundwell poured millions of dollars in stolen funds into RC Quarter Horses LLC, building a large ranch in Dixon, traveling to competitions, and buying horse trailers with price tags in the six figures and motor homes with price tags north of \$1 million. She was willing on several occasions to spend well into the six figures to buy individual horses. The total she spent on her operation is not known, but when federal authorities seized Crundwell's assets after her arrest, she owned 400 horses.

After the asset seizure, the U.S. Marshals Service was in charge of maintaining the care of her quarter horses. Jason Wojdylo, chief inspector of the Asset Forfeiture Division of the U.S. Marshals Service, said that the government spent approximately \$200,000 per month caring for the horses before they were sold at auction.

Crundwell's spending was not limited to her quarter horse operation. She lived an extravagant lifestyle for someone who received an \$80,000 annual salary. In addition to the horse farm, she owned several family residences, including one in Florida, approximately 80 acres of land, and numerous impressive personal vehicles. In addition, she shelled out tens of thousands of dollars for jewelry purchases.

Some Dixon residents raised questions about Crundwell's lavish living, but they were answered by a number of rumors that explained her income, including one that Crundwell had an investor in her horse business and another that her family was in the satellite business and her family owned all of the cellphone towers in Illinois.

Crundwell pleaded guilty to the fraud and on Feb. 14 was sentenced to 19 ½ years in prison. The 60-year-old must serve at least 16 ½ years, or 85%, of her sentence, which was slightly less than the maximum 20 years sought by prosecutors. Crundwell, who also was ordered to repay the nearly \$54 million she stole, is appealing the sentence. The town is unlikely to see more than a fifth or so of that money returned, according to prosecutors on the case.

## **The Dixon fraud timeline**

A timeline of major events in the Rita Crundwell fraud scheme.

- 1983: The city of Dixon, Ill., names Rita Crundwell comptroller and treasurer.
- 1990: Crundwell opens a secret bank account in the name of the city of Dixon.
- 1991: Crundwell steals \$181,000 from the city of Dixon. She spends \$18,728 in July to buy a 28-foot Suncruiser Pontoon boat with a deluxe buggy top, wet bar, propane grill, and playpen cover. She also spends more than \$3,000 on diamond stud earrings and other jewelry.
- 1992: Crundwell steals \$121,367.

- 1993: Crundwell steals \$225,287. The city of Dixon reports a deficit of nearly \$415,000 and makes budget cuts totaling \$195,000.
- 1994: Crundwell steals \$117,281. Dixon cuts more than \$150,000 from budget.
- 1995: Crundwell steals \$103,664. Dixon reports a deficit of \$322,214 and slashes the budget by more than \$185,000.
- 1996: Data not available.
- 1997: Crundwell steals \$328,622 and uses stolen funds to pay for a custom saddle, enclosed golf cart, and a horse named Two Thumbs Up. The city reports deficits as high as \$232,600 and makes more than \$100,000 in budget cuts.
- 1998: Crundwell steals \$767,487 and uses stolen funds to buy a motor home for \$100,000, a deck boat for \$50,000, and a 1998 Chevy pickup truck for \$28,000.
- 1999: Crundwell steals nearly \$1.1 million and buys a horse named Can't Fool Patty for \$125,000.
- 2000: Crundwell steals \$1.9 million and spends \$450,000 to remodel and expand her home in Dixon. The city reports a deficit of \$370,674 before making tens of thousands in budget cuts.
- 2001: Crundwell steals \$2.6 million and buys three horses for a combined \$525,000. The city reports a deficit of \$730,576 before another round of budget cuts.
- 2002: Crundwell steals a shade under \$3 million and uses stolen funds to buy a motor home for \$400,000, purchase a horse for \$200,000, and buy her boyfriend a 1967 Chevy Corvette for \$56,000. The city of Dixon institutes a hiring freeze due to budget deficits.
- 2003: Crundwell steals slightly more than \$3 million. The city reports a deficit of nearly \$1.3 million blamed in large part on state funding cuts.
- 2004: Crundwell steals almost \$3.5 million and buys a new motor home costing \$1.7 million. Dixon reports a deficit of \$1.6 million before additional budget cuts are made.
- 2005: Crundwell steals \$4.6 million and builds a horse ranch facility in Dixon, writing checks to construction companies totaling about \$650,000. She also trades in the motor home she bought 11 months earlier and pays a \$235,000 balance to buy a new motor home for \$1.82 million.
- 2006: Crundwell steals \$4.4 million. The city reports a deficit of \$1.7 million and announces a budget freeze plus \$700,000 in cuts from the capital equipment budget.
- 2007: Crundwell steals \$4.75 million. She trades in the motor home she bought in 2005 and pays a balance of \$545,000 to buy a new motor home costing \$1.96 million. The city reports a deficit of more than \$1.1 million.
- 2008: Crundwell steals \$5.8 million. She spends \$425,000 and trades in the motor home she bought the previous year to purchase a new motor home costing \$2.1 million.
- 2009: Crundwell steals \$5.6 million. She spends \$335,000 to buy a pair of horses and \$260,000 to buy a new horse trailer. She also wires \$105,097 for the purchase of a home in Englewood, Fla.
- 2011: A Dixon city clerk opens the mail while Crundwell is on vacation, discovers the RSCDA account and immediately alerts the mayor, who then contacts the FBI.
- 2012: Crundwell is arrested and pleads guilty to fraud charges.
- 2013: A judge sentences Crundwell to 19 years, 7 months in prison