Internal Control Assessment of Sample County Finance Department

Purpose: To document an understanding and assess the internal controls of the Sample County finance department 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 finance department are safeguarded against waste, loss, unauthorized use or misappropriation
3. Whether revenues and expenditures in the county funds 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: An in-depth analysis of the internal control environment for the operations of the Sample County finance department was performed over a four-day period by multiple county finance department employees, Red Sonja (county finance director) and Rico Suave (CTAS county government consultant). The finance department consists of a finance director, deputy finance director and eight staff members.

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

Ensure that contracts are in place for goods and services that are required by law, review purchasing procedures for non-payroll costs to ensure compliance with law, review payroll procedures to ensure that payroll is for legitimate and authorized employee costs only, review emergency purchase procedures for compliance with law, ensure any store cards and credit cards used by the department are in compliance with purchasing policy and law and are safeguarded. Ensure that all debt is issued in accordance with statute.

Process of adoption of original annual budget: The county operates under the County Financial Management System of 1981, which sets the budget process. Additionally, the county finance committee has adopted a written budget adoption calendar to help guide the finance committee through the budget adoption process. Once the original budget is adopted and accepted by the state division of local finance and the state department of education, the county finance director posts the original budget to the office’s LGC software. After the original budget is posted by the finance director, the deputy finance director will review the posted budget line items (in LGC software) with the commission-approved budget to ensure accurate posting of the original budget.

Budget amendments: The finance director and deputy director coordinate with various county departments and the county finance committee to monitor the adopted budget throughout the year to ensure that any needed budget amendments are made before an overage occurs.

Purchasing: The finance department complies with the county purchasing policy adopted under the County Financial Management System of 1981 that is in effect for Sample County government.

Purchase Orders: The county finance department complies with and administers the written policy for purchase orders in the county financial management policies. No purchases (other than insurance, travel, utilities) can be made until a requisition has been received and approved by the county finance office and the applicable department head/elected official. County departments will bring in, email or fax a requisition to Oprah Winfrey, finance department purchasing coordinator, who will verify the availability of funding in the budget. The purchase order is then issued, and the requesting department can make a purchase. Tina Turner, accounts payable clerk, enters the purchase order into the LGDPC accounting software that the county finance department utilizes. When the finance department receives the corresponding invoice for the ordered goods, the finance department requires the department/office that ordered the goods to sign off on the invoice verifying the goods were received. The purchase order is then liquidated (if not open blanket PO), and checks are prepared for payments by Marilyn Monroe, purchasing specialist. The county finance office typically negotiates early discount payments from vendors. If these are not offered, the vendor will receive their payments net 30 of the invoice date unless a special exception (local small business) is agreed upon ahead of the purchase. See the purchase order section of the county purchasing policy for more detail of internal control over purchase orders.

Store cards: As some vendors do not accept county purchase orders, Walmart, Lowe’s, Home Depot, Tractor Supply, Kroger and Office Max cards are maintained and kept locked up when not in use in Marilyn Monroe’s (purchasing specialist) desk. Marilyn maintains a sign out sheet so that authorized county officials/employees can check out a card after a purchase order has been issued. The respective county official/department head must review and sign the invoices of all store card purchases made by their department each month before the store card invoice is paid. Blanket purchase orders are utilized for some store card purchases.

Credit Card: The Sample County finance department has adopted a credit card policy that details procedures for use of county credit cards. The finance office has two credit cards that are kept locked up when not in use in Red Sonja’s desk. These cards are used for on-line purchases and for vendors that do not take a purchase order and do not have store cards. After a purchase order is issued, authorized county officials/employees can sign a credit card out. The respective county official/department head is responsible for reviewing and signing off on the credit card invoice for all purchases made by their department/office monthly. See the county credit card policy for more detail on the internal control process over credit cards.

Contracts: Per Sample County purchasing policy, the county finance director signs all county contracts dealing with purchasing. Any items (other than professional services or other items exempt from bidding by state statute) over $25,000 must be competitively bid, and all items between $500 and $25,000 must have three quotes. All contracts over 12 months in length are reviewed by the county attorney and then approved by the county commission. For a detailed step-by-step listing of internal controls/processes over bidding/contract awards, see the bidding procedure section of the county’s purchasing policy. The finance director coordinates with the individual county departments/offices to ensure contract compliance from the vendors (county receiving agreed upon price, level of service, etc.). Per county policy, all grant contracts are approved by the county commission and signed by the county mayor, road superintendent or director of schools prior to any grant funds being spent or encumbered.

Emergency purchases: The county purchasing policy addresses emergency purchases, and the finance director enforces this policy. Any emergency purchase that circumvents normal purchasing procedure must have the requesting official/department head complete, as soon as feasible, an an emergency purchase justification form that both the requesting official and a department head signs. See the county purchasing policy for a copy of the emergency purchase justification form and additional information on emergency purchasing procedures.

Payroll: Payroll is authorized each fiscal year through the annual county budget appropriation, and letters of agreement are used for the constitutional officers. The county finance director assists the county officials with completing their letters of agreement if requested. The finance director monitors all county payroll line items during the fiscal year to ensure that payroll costs do not exceed county commission approved amounts, and the authorized amounts in the letters of agreement if applicable, without a budget amendment and/or amendment to the letter of agreement first being approved.

Employee benefits: The county participates in TCRS for full-time employees and also allows full-time county employees that were hired prior to June 30, 2014 to maintain health insurance after they retire if they meet qualifications and are eligible for TCRS benefits. The finance department monitors the OPEB and pension obligations for the county along with a contracted actuary. The finance director is responsible for ensuring compliance with the county personnel policies to ensure that only eligible county employees/retirees receive OPEB and pension benefits. The finance department payroll clerks continually review the status of county employees to check for eligibility of these benefits.

Vacation and leave obligations: The county finance director coordinates with the county payroll clerks and the various county departments to ensure all vacation/sick/compensatory time accrued is accounted for accurately, is in compliance with county personnel policies, and is within legal limits (comp time).

Debt issuance and management: The county finance department coordinates with the county financial advisor (bonds) and financial institutions (capital outlay notes) to ensure that the county is in compliance with the adopted county debt management policy and state statute. The finance department is responsible for an annual review of the county debt management policy. To guard against the county entering into a capital lease by accident, all leases for equipment (copiers, office equipment) are reviewed by the county attorney prior to signing.

1. Whether county funds, property and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation

Control environment: All finance department employees have written job descriptions and have criminal background checks performed prior to employment with the county finance department. The finance director sets the tone for her office with a written mission statement that stresses accountability for public funds and compliance with the County Financial Management System of 1981 which is posted on the wall of the office and on the department’s website. Additionally, the finance director communicates to her staff through annual employee evaluations that integrity, ethical behavior and competence in job skills are expected of county finance department personnel. All new hires in the county finance office are required to have a criminal background check prior to starting work.

Receipting: See the segregation of duties for procedures for receipting over-the-counter and mail transactions.

Disbursements: See the segregation of duties for procedures for payroll and non-payroll disbursements. All non-payroll checks are generated on official, pre-printed checks, and all payroll transactions are done by direct deposit.

Bank account/Trustee reconciliations and journal entries (including month and year end): See the segregation of duties for procedures in reconciliations and journal entries.

Capital assets: Sample County has adopted a capital assets policy that includes capitalization thresholds, useful lives and procedures for additions, deletions and annual inventory reviews. This includes assets that were purchased with state and federal grant funds. See the segregation of duties checklist for procedures/assignments for inventory control.

Payroll: To protect against fraud (ghost employees, unauthorized bonus payments, etc.), all new county employees (including school personnel) are required to physically come to the county finance office to get set up on payroll. Additionally, all county employees that request a change in payroll direct deposit (new bank account) are required to physically come into the finance office to sign the necessary forms. Supervisors of terminated/retiring employees are required to submit a form promptly to county finance to end payroll payments. If this step is forgotten, county finance will catch this on the next pay period when a time sheet is not submitted (for hourly employees). The county finance department performs a comprehensive payroll audit of all county offices in the spring during annual budget development to review that all employees on payroll have supporting documentation (W4, approved deductions, etc.) on file. See the segregation of duties spreadsheet for controls over the payroll run procedures.

Surplus of county property: The county finance department administers the sales of surplus county equipment after the equipment has been declared surplus. The county finance department adheres to the county’s policy for surplus property.

1. Whether 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

The finance department performs monthly reconciliations for all funds with the county trustee. This reconciliation includes ensuring that revenues and expenditures for the month were coded correctly. Copies of the month-end reports are sent to all county department heads and officials for review.

The finance department posts all purchase orders and contracts (except phone, utilities, insurance premiums, surety bonds) to LGC software as encumbrances to assist with ongoing monitoring of the appropriation budget.

The county finance director and her deputy review the budget of each fund to ensure the original approved budget and any subsequent budget amendments are posted correctly to the accounting software.

The finance department closes the year-end in July each year. The finance department has a year-end checklist that includes each report needed by audit (deferred revenue, taxes receivable, interest receivable, cash with clerks and trustee, etc.). Depreciation and capital asset reports are prepared and reviewed.

The finance director takes prompt action on any identified internal control weakness over accounting, purchasing and budgeting identified by her review of operations, external annual audits and state/federal monitors.

The county finance director and deputy finance director attend numerous continuing education courses annually that pertain to GASB updates and changes to state law pertaining to accounting, purchasing and budgeting. Finance department employees that are assigned to school financial management also attend state department of education fiscal workshops annually.

*Recommendation: The County needs to implement an automated payroll system for all employees*, *including exempt employees, to better track payroll (largest expenditure in the county budget) and to assist with compliance with ACA.*