

Bradley County Road Department

Internal Control Assessment

Purpose: To document an understanding and assess the internal controls of the Bradley County Road Department as it pertains to the following:

- I. Whether the 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 Road Department are safeguarded against waste, loss, unauthorized use, or misappropriation
- III. Whether revenues and expenditures in the county highway fund 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 Bradley County Road Department was performed over a two and a half day period by multiple county highway and finance department employees, as well as Sandra Knight Collins, County Road Superintendent, and Gary Hayes, the CTAS Field Consultant

Road Department

- I. 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. Review the above procedures for efficiency.

Human Resources: The road department has a organizational chart and written job descriptions for all department employees. The department has an updated employee handbook and the county's ethic policy.

Physical Security: The following individuals have keys to the main office, the maintenance garage, sign shop and the gates: Sandra and Gloria. The following individuals have keys to the maintenance garage and shop: Bobby and Lisa. The following individuals have keys to the main gate at the maintenance garage: John and Joey. The main office has a security system while the maintenance garage and shop has both a security system and a surveillance system.

Purchasing: The Road Department complies with the 1983 Purchasing Law and the County Uniform Highway Law (CUHL).

Purchase Orders: Sandra Knight Collins (Road Superintendent), Chris Ballard (Shop Forman), Doug Hughes (Sign Shop Supervisor), Lisa Bowling (Supervisor of Operations), Gloria Hayes (Administrative Assistant), Bobby Combs (Assistant Superintendent) and Doris Ann Near (HR/Payroll Administrator) will originate a purchase order request with Kim (bookkeeper) to ensure there is funding available in the line item for the purchase and that the vendor is on the approved vendor list. Kim issues the purchase order which authorizes the purchase to be made. Sandra, Chris, Doug, Lisa, Gloria, Bobby or Kim will then place the order with the vendor and when the goods arrive (if the highway employee does not pick up purchase at a local store) the same people verify that the goods received are the goods itemized on the invoice. If goods are ordered online or over the phone and shipped to the Road Department, the appropriate person will verify that the goods received are on the shipping list and invoice when delivered. If it is a large item (engine, heavy tractor part, etc.) that is shipped directly to the highway shop area, Kim verifies with the shop forman that the goods received are the goods on the shipping list/invoice. The invoice is then initialed as goods received by Chris and forwarded to Kim for payment by accounts payable. The Road Department can utilize blanket purchase orders with numerous vendors (hardware store, auto parts store, asphalt plant, rock quarry) and the vendor will send a monthly invoice, which Kim reviews against the individual shipping and weight tickets to verify they are legitimate county purchases of goods and that the person that picked up the goods at the store, plant or quarry is a highway employee and has signed the tickets. All purchases over \$10,000 are competitively bid and reviewed by the department's management team.

Store Cards: The Staples card is kept locked up when not in use in the office safe. Kim, Doris Ann, Gloria and Lisa will go to Staple's after a purchase order is originated for the purchase and approved by Sandra. Blanket purchase orders are not utilized for the Staples card so every individual purchase with the card is approved by the Road Superintendent prior to purchase. Kim and Gloria will review the monthly invoices for store card purchases together at the end of the month and then approve the invoices with the purchase requisition and copy of the approved purchase order for payment.

Credit Card: The Bradley Road Department does not have a credit card.

Contracts: Per Bradley County purchasing policy, the county Road Superintendent signs all contracts dealing with the Road Department. Once competitive bids are opened by the county Road Superintendent, Assistant Superintendent and Administrative Assistant, the group reviews and awards the bids based on best and lowest price. All contracts that are over one year in length are sent to the county attorney for review and approval by the county commission. Gloria coordinates with Kim to ensure contract compliance per county purchasing policy.

Emergency Purchases: The Road Superintendent (Sandra) will coordinate with Gloria and Kim 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 road department has guidelines for emergency purchases in its policy and complies with those guidelines.

Payroll: Payroll is authorized each fiscal year through the annual county budget appropriation for the highway fund that is prepared by Gloria and Sandra and then sent to the county commission for approval in compliance with the County Uniform Highway Law. Gloria prepares a monthly year-to-date expenditure vs. budget report for the Rad Superintendent. Gloria and Kim will bring any anticipated, foreseeable budget overages to the attention of Sandra in order that a budget amendment can be prepared timely. All payments to employees are paid through payroll accounts (not vendor accounts) in order to comply with IRS tax code for payroll taxes and state unemployment compensation and workers comp laws.

II. Whether county funds, property and other assets that are designated/assigned to the Road Department 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 and then internal controls over these items were scrutinized. In the Road Department, material expenditure amounts were: payroll, liquid asphalt, crushed stone, diesel fuel, highway equipment, equipment and machine parts, and highway construction. Assets of the Road Department that were identified through interview of staff and capital asset records and that are at risk for waste, loss, unauthorized use or misappropriation are cash receipts on hand, bulk fuel pumps at highway garage, vehicles, new metal tile inventory, scrap/recycle metal disposal, and surplus of highway equipment. The department does not receive donations. Internal controls over these material assets/costs were scrutinized in-depth.

Receipt/Disburse/Deposit/Reconcile/Segregation of duties over Cash:

The following procedure will be in place to help satisfy and ensure compliance with internal controls over receipting at the Road Department. The Road Department does not maintain a bank account as all accounting for the department, except receipting, is handled by the county Trustee. The Road Department disburses all checks (payroll/vendor). The Road Department may receive checks or cash from scrap metal sales from the local scrap yard, surplus property sales, and drug testing for new hires. This is receipted to the Trustee and reconciled each month by Gloria and Kim.

1. Kim Rippetoe (Accounts Payable) will receipt checks, put Deposit account number on checks and makes a copy for the cash receipts folder.
2. Gloria will carry the receipted checks within three business days over to the Trustee's office and deposit these funds with the Trustee. The Trustee will issue a trustee receipt that Gloria will take back to the Road Department office and keep on file. The Trustee receipts are capable of being reconciled back to the individual Road Department receipts that make up the total deposit that was made at the Road Department. Gloria and Kim keep a notebook at the Road Department and enters into it an up-to-date cash with trustee balance of the highway fund by coordinating with the county trustee and as an additional

“check” to ensure that the cash with trustee balance is correct on the financial records of the road department.

Note: In the event of absence (extended sickness, vacation, etc.) Kim would receipt the checks and make the deposit with the Trustee.

Bulk Fuel Pumps: The Road Department maintains bulk fuel pumps at the highway garage for diesel and gas needs. Fuel is competitively bid by the road department and is delivered to the bulk tanks by the vendor. Gasoline is purchased by the Road Department and used for official highway business. Tickets are completed by the county employees getting the fuel when vehicles are filled at the county pumps, which are located at the Road Department shop. These tickets are summarized by Chris (Shop Foreman) and report is sent to Kim. When the bulk fuel tanks get low, Doris Ann will place an order with the fuel vendor (who has an open PO) for additional fuel. The fuel pumps are powered off the highway office building’s electric and are turned off from inside the shop each night and the shop is locked and security alarm set (Road Superintendent, Supervisor of Operations, Shop Foreman and Assistant Superintendent have keys). The main gate to the Road Department is padlocked at closing time.

Payroll: To protect against fraud (ghost employees, unauthorized bonus payments, etc.) all Road Department employees have a personnel file maintained in the Road Department office by Doris Ann. All employees utilize a punch time clock in the county highway garage when they report for duty in the morning and when they end their shift. The Road Superintendent and/or Assistant Superintendent and the Supervisor of Operations is present in the highway garage every workday at the beginning of the work shift to hand out daily assignments and to ensure all employees are at work. At the end of the pay period, Doris Ann (Payroll Administrator) collects the time cards and compiles the payroll hours for each employee for the pay period, notes any vacation and sick time taken and then submitsthis summary report for payroll processing. Doris Ann keeps a detailed balance per employee of accumulated sick, vacation and personal leave on file. Some employees are on direct deposit or others receive paper checks from Doris Ann after Gloria reviews the checks (and stubs for direct deposit). Personnel policy for the Road Department caps

the vacation accrual per employee at 30 days, sick time is not capped. When/if an employee exceeds the maximum vacation time cap (which is rare) then the overage is rolled to time under the Tennessee Consolidated Retirement System as these overages are not paid out. An annual leave accrual summary is calculated by Doris Ann at the end of the fiscal year. Gloria, Kim and Sandra review the monthly budget to actual expenditure reports to ensure the actual expenditures are in line with the approved budget.

Inventory of Crushed Rock, Metal Pipe, Hot Mix and Road Signs:

Crushed rock is kept on the back lot behind the maintenance shop and is secured behind a locked gate after hours. When rock is taken off the inventory pile, the drivers note it on the daily work order for a job which Kim uses to reconcile the tonnage to the last large delivery runs. The rock is tracked to each job site (road, bridge or right-of-way easements) by GASB & CTAS software system.

Metal culvert is kept on the back lot behind the maintenance shop and is secured behind a locked gate after hours. When culvert is taken off to a job site, the drivers note it on the daily work order for a job that Kim uses to reconcile the culvert taken to the inventory on hand. The culvert is tracked to each job site (road) by GASB & CTAS software system.

A small load of cold mix (20 tons) is produced bi-annually or as needed and kept on hand for filling potholes. The pile is secured after hours. Since this is a small amount of material and the cold mix is used to fill holes of various sizes, the material is not tracked to individual job sites. Bobby and Lisa keep an eye on the quantity on hand and based on his/her numerous years of experience, would know if there was abnormal shrinkage of the cold mix.

Road Signs: The department makes all of the road signs. Doug, the sign technician, is responsible for the management of the inventory and sign production. All materials are kept in the sign shop.

Inventory of Vehicles and Large Equipment: Gloria maintains an inventory of assigned vehicles on the GASB asset software system. The inventory software records vehicle make, model, year, description, year purchased, purchase price, and VIN. Gloria coordinates with the county finance department to be sure that any vehicle or equipment that meets depreciation thresholds is on the county finance depreciation software. All vehicles and large equipment are marked as county highway property and numbered.

Kim will enter in any new purchases of vehicles and equipment into the GASB asset software and delete any surplus sales of equipment after these assets are no longer in use and declared surplus and sold. Sandra and her assistant road superintendent communicate to the road department employees that no work is to be performed and no materials are to be used for except for county roads.

Inventory of Small Equipment and Tools: An inventory of small equipment, furniture and tools assigned to the county Road Department is maintained and updated annually by Gloria and Lisa. Any missing items when the inventory is completed are reported to Sandra. All tools that are not assigned to vehicles are kept in the Road Department tool trailer and signed out and in on a daily basis.

Liquid Asphalt: Each road that is to be resurfaced, after the road is confirmed to be a county-owned road, is measured for distance and the needed quantity of liquid asphalt is determined. Liquid asphalt is then ordered by Kim and a county tanker is sent to the vendor to spot load the liquid asphalt into the county-owned distributor. The amount used on each road project is recorded and tracked by Lisa and Kim in the GASB software system as well as reconciled back to the bulk load invoice. If there is a small amount of leftover liquid asphalt, then the Road Department will maintain this material in the 1500 gallon distributor truck to be used for small patch jobs (road cuts, shoulder work, etc.) around the county.

Hot Mix Asphalt: Hot mix is competitively bid out in compliance with the Road Department purchasing policy. County trucks pick up and haul asphalt mix to the job site for use by county paving crews. Kim will verify that the billing from the paving contractor agrees with the bid price and that the tons of material charged for is what was received from the asphalt plant prior

to approval of payment. A road department employee is assigned to be physically present at each contracted paving site during construction to verify loads delivered and to sign trip tickets and take a copy of the tickets to Kim.

Highway Construction: This expenditure line item is to track and separate all state-aid road construction in the financial records as requested by TDOT and the state comptroller's office. Road paving, striping, engineering, road signs and traffic control costs that are associated with state-aid roads are posted to this line item. The same internal controls for tracking the individual costs and assets (hot-mix, crushed stone, signs) are utilized for state-aid roads as well as TDOT required forms. TDOT reviews all state-aid expenditures to verify that funds were utilized in accordance with grant requirements. Sandra works closely with TDOT to ensure that grant requirements are met. All state-aid paving is capitalized and tracked on the GASB software system.

Bridge construction: State-aid bridge construction/replacement is bid out to a third party contractor and engineer in compliance with grant requirements. Sandra coordinates with the contractor and engineer to ensure that the bridge is placed as specified and that work is done prior to contractor draws as determined by the project contract. Kim enters the cost of the bridge construction/replacement into the GASB software when the final cost is determined.

Selling of Assests: The Road Department follows the guidelines set forth in the county's capital assest policy for the disposal or selling of Road Department assests.

Interlocal Agreements/Contracts for other Governmental Entities: When requested to perform work for another governmental entity inside the county, the road superintendent receives a formal request and takes the formal request to the county commission for approaval. The request includes all work to be performed by the road department. Kim tracks the daily expenditures and when the project is completed an invoice is prepared and sent to the entity. Upon receipt of payment, the check is recorded into the cash receipts file and then deposited with the Trustee with in the 3 day law. For requests from another governmental entity outside the county, the road department requires an interlocal agreement and follows the same process for governmental entities inside the county.

Private Property Easements: If there is need for the Road Department to utilize private property during the construction, maintenance or repairs on a county road (ROW), the department will secure an easement from the property owner for the work to be done.

IV. Whether revenues and expenditures in the county highway fund 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

Gloria is responsible for coordinating with the county trustee's office to ensure that all receipted funds are coded to the correct revenue line item when she carries over the deposit. Gloria coordinates with Kim to ensure purchase orders for non-payroll items are coded to the correct object code and expenditure budget. Gloria ensures that capital asset records for external reporting purposes are up to date and in compliance with county capital asset policies.

Gloria and Sandra review the expenditure and revenue budget-to-actual report monthly for the highway fund to determine:

1. The original, approved highway fund budget was posted correctly.
2. Revenues were coded correctly and are tracking in line with the budgeted revenues.
3. Expenditures are in line with the budget and if an overage is anticipated, a budget amendment will be requested.

The county will post year-end property taxes receivable, any grant receivables, accounts payables and any encumbrances to the highway fund when they close the books. Gloria, Kim and Sandra will review these year-end closing entries. Gloria will review capital asset listings for external financial reporting and depreciation schedules to ensure accurate reporting and accountability of capital assets assigned to the county Road Department.

Corrective action of any identified internal control deficiencies from independent audit: Sandra would review any audit findings that noted internal control deficiencies in the Road Department operations and would seek to correct these weaknesses. As noted in Bradley County's prior year audit, the Road Department has no audit findings.