



County Technical Assistance Service
INSTITUTE FOR PUBLIC SERVICE

INTERNAL CONTROLS

REGISTERS OF DEEDS

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 register of deeds' office are safeguarded against waste, loss, unauthorized use or misappropriation and (III) Whether revenues and expenditures in the register of deeds' office fee account and county general fund (as it relates to the register of deeds' office) are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

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.

REGISTER OF DEEDS
SAMPLE INTERNAL CONTROLS QUESTIONNAIRE
January 2016

Sample Internal Control Assessment Questions

Register of Deeds

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 register of deeds' office are safeguarded against waste, loss, unauthorized use or misappropriation and (III) Whether revenues and expenditures in the register of deeds' office fee account and county general fund (as it relates to the register of deeds' office) are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

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 it 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 register'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) Does the county have an adopted purchasing policy?
- b) Who is responsible for filling out purchase order requisitions with the finance department?
- c) Who signs the requisition?
- d) Who coordinates with the 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?
- e) Who authorizes the purchase by issuing the purchase order?
- f) Who places the order?
- g) Who verifies the goods received are itemized on the invoice?

- h) Who signs the invoice and forwards it to the finance department?
- i) Are blanket purchase orders utilized? If so, for what purpose are they used?
- j) Does the office have an adopted policy which addresses emergency purchases?
- k) How are emergency purchases documented?

Store cards:

- a) Does the office have an assigned store card (e.g. Walmart, Lowes)? If so, which stores? If not, does the office have access to a store card?

Contracts:

- a) Who signs all county contracts dealing with purchasing?
- b) Are there certain contracts that require county legislative body approval?
- c) Is there a requirement for the county attorney to review proposed contracts?
- d) Who serves as the contract monitor?
- e) How is the contract monitored for vendor compliance?

Payroll:

- a) If a salary suit is not filed, who prepares the letter of agreement to authorize payroll?
- b) Who signs the letter of agreement?
- c) Who receives a copy of the office's adopted budget and a monthly year-to-date expenditure vs. budget report from the finance/mayor's office each month?
- d) Who is responsible for verifying the office is in compliance with maintaining only three months' worth of salaries in the fee account?
- e) Where does the excess go?
- f) From what account is payroll for the office run?
- g) What fund covers the employer share of FICA, TCRS and health insurance?
- h) Do any employees receive compensatory time? Which ones?
- i) How are payroll payments made to employees?

II. Whether county funds, property and other assets that are designated/assigned to the register of deeds' office are safeguarded against waste, loss, unauthorized use or misappropriation

Cash with fee account:

- a) Are manual checks utilized in the office? Who is authorized to sign checks?
- b) How are refunds made in the event of overpayment?
- c) Does the office have a written disaster recovery plan?
- d) How often is the computer system backed up?
- e) Where is the back-up data stored?
- f) Does anyone keep a copy of the back-up data? Is it secure?
- g) Who enters daily receipting of payments into the county office?
- h) 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.
- i) Do deputies who receipt funds maintain separate cash boxes? How are they secured?

- j) How often are the boxes counted and balanced?
- k) How are the correct amounts in the boxes verified?
- l) Does the office have an adopted overage policy? What is it?
- m) How are shortages in the cash boxes handled?
- n) Who investigates material shortages?
- o) Are all employees aware of these procedures?
- p) Can receipts be voided?
- q) Who is authorized to void receipts?
- r) How often are voids reviewed?
- s) Who posts the daily deposit to the ledger?
- t) Who prepares the deposit slip?
- u) Who verifies the deposit is intact and coincides with the total daily cash/check report?
- v) Who initials the deposit slip?
- w) Who takes the deposit?
- x) How often?
- y) Who takes the deposit in the event of an absence?
- z) How much cash on hand is authorized per box and total?
- aa) How are the boxes secured?
- bb) Where are the boxes stored at the end of the work day?
- cc) Are the checks pre-numbered that are manually entered into the accounting system?

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 deposits are being made in a timely fashion?
- c) Who reviews the copies of all checks to verify all disbursements were made to legitimate vendors/agencies?
- d) Who receives the bank statement to reconcile to the ledger?
- e) Who prints/prepares monthly reports to other agencies/departments?
- f) Who is responsible for writing month end checks?
- g) Who signs the checks?
- h) Who reviews all checks and month end reports?
- i) Who reviews the bank reconciliation to ensure all items are legitimate?
- j) Who reviews the monthly electronic audit log?

Annual bookkeeping procedures:

- a) Who prepares the annual financial report after closing for the month of June?
- b) Who signs the report and to whom is it provided?
- c) Are all month-end and year-end general ledger reports placed to be readily available for audit purposes?
- d) Who prepares an end-of-year accrued vacation report?

Inventory of office equipment:

- a) Who is responsible for maintaining an updated inventory list and coordinating with BIS to conduct an annual physical inventory of all computer equipment assigned to the office?
- b) Is a copy available and secured?
- c) Does the office have any assets assigned to the office that meet the capitalization thresholds for external financial reporting?

Payroll:

- a) Do all employees have an updated personnel file?
- b) Who maintains the files?
- c) How do employees log hours?
- d) Are employees allowed to work off the clock?
- e) How often are employees paid?
- f) Who is responsible for running timecard totals for each employee and preparing payroll?
- g) How are employees paid?
- h) Who prepares and submits payroll tax reports each pay period and completes quarterly 941 forms and state unemployment returns?
- i) Who reviews and signs these returns prior to them being mailed?
- j) What is the office policy for correspondence from the IRS?
- k) Who writes a check to the finance department for the employee insurance deductions at the end of the month after butch reviews the deductions?
- l) Do all employees review and authorize their payroll deductions each year?

Maintenance agreements:

- a) Who maintains contracts on file for maintenance/support for the office's computer system and other electronic equipment?
- b) Who reviews the invoices from the vendors prior to forwarding them to the finance office for payment to ensure the vendors' charges are in compliance with the contracted prices?

III Whether revenues and expenditures in the register of deeds' office fee account and county general fund (as it relates to the register of deeds' office) are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets

Revenues and expenditures:

- a) Who is responsible for coordinating with the trustee's office and finance department to ensure all receipted funds are coded to the correct object code and expenditure budget?

- b) Who coordinates with the finance department to ensure the end-of-year reserves for unspent, earmarked fees are correct?
- c) Who reviews the month-to-date budget expenditure report that county finance sends them to ensure the register's office expenditures are accurate and in line with the approved budget?
- d) Who verifies that the approved original annual budget for the office, along with any approved budget amendments have been posted to the county finance software correctly?
- e) Who reviews all expenditures in the fee account monthly during month end close to ensure the expenditures are properly recorded and accounted for in the register's fee account?

REGISTER OF DEEDS
SAMPLE INTERNAL CONTROLS ASSESSMENT
January 2016

Sample Internal Control Assessment

Register of Deeds

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

1. Whether the obligations and costs of the operation are in compliance with applicable law
2. Whether county funds, property and other assets that are designated/assigned to the register of deeds are safeguarded against waste, loss, unauthorized use, or misappropriation
3. Whether revenues and expenditures in the register of deeds' fee account and county general fund (as it relates to the register of deeds) are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets

Overview: Sample County Register of Deeds' office consists of the register, a bookkeeper, and five deputy clerks. An in-depth analysis of the internal control environment for the operations of the Sample County register's office was performed by Butch Cassidy, the Sample County Register of Deeds, his employees and a CTAS field consultant.

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

General:

The register of deeds has a written organizational chart for office employees to show clear lines of authority and written job descriptions for all employees and open positions. The register of deeds has an updated personnel policy that is reviewed annually to assist with compliance with federal and state labor laws. The office has a copy of the most recent county ethics policy on file in the office for employees to reference.

Physical security of the register of deeds' office:

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

Purchasing:

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

Purchase Orders:

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

Credit/Store cards:

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

Contracts:

Per Sample County purchasing policy, the county finance director signs all county contracts dealing with purchasing. All vendor contracts that are over one year in length are approved by the county commission after the county attorney reviews them. The register of deeds coordinates with the county finance department to ensure contract compliance per county purchasing policy. Butch does not sign any vendor contracts as outlined in the county purchasing policy and 1981 Financial Management System purchasing laws.

Emergency purchases:

Butch will coordinate with the county finance department in the case of emergency purchases that arise from unforeseen events that will require normal bidding procedures to be circumvented because of the nature of the emergency at hand. The county purchasing policy addresses emergency purchases and the register's office complies with these policies. Emergency purchases would be a very rare occurrence in the register's office

Payroll:

Payroll is authorized each fiscal year through a letter of agreement prepared by Claire and signed by the mayor and Butch after the adoption of the county budget. Butch receives a copy of his office's adopted budget after the county commission approves it and then receives a monthly year-to-date expenditure vs. budget report from county finance each month. The register of deeds operates as an excess fee office, and Butch and Claire will check each quarter to ensure they are in compliance with maintaining only three months' worth of salaries in the fee account. The excess is turned over to the general fund. Payroll is run through the register's fee account with the county general fund covering the employer share of FICA, TCRS, and health insurance. The register of deeds provides compensatory time to the

non-exempt office staff for the occasional time that a deputy has to stay a little late or come in early to complete paperwork. All payments to employees are paid through payroll accounts (not vendor accounts) in order to comply with IRS tax code for payroll taxes, state unemployment compensation, worker compensation laws and TCRS requirements.

II. Whether county funds, property and other assets that are designated/assigned to the register of deeds' office are safeguarded against waste, loss, unauthorized use, or misappropriation

Overview: The audited financial report detailed expenditure statements were reviewed to identify expenditures of material amounts. In the register of deeds' office, material expenditure amounts were payroll and maintenance agreements (computer software/hardware and copy machine maintenance/support). Internal controls over these material assets/costs were scrutinized in-depth.

Fee account and office cash operations-receipt/disburse/deposit/reconcile/segregation of duties over cash:

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

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

Daily receipting of payments into the office are entered by any deputy except the bookkeeper. Separate cash boxes are maintained by each deputy who receipts funds and are kept at the assigned deputy's workstation inside their desk drawers (that lock). The cash boxes are counted and balanced each day by the deputies against the BIS daily cash/check report. The register's office has an overage policy in which overages/shortages under \$10 are automatically placed in the over/short account by the software system, and any remaining amount in this account is swept into excess fees at the end of each quarter. Any overage over \$10 is investigated, the taxpayer is tracked down (typically a title company), and a refund check is disbursed from the refund account. Any cash shortages in daily receipting (trivial amounts) when a deputy counts out for the day require the deputy that is short to pay from their personal funds to make the deposit intact. A large shortage in daily receipts from a deputy's drawer would be investigated immediately by Butch. All deputies are aware of this requirement, because they all sign a written statement that states they are personally responsible for their cash drawer upon issue of the drawer. The BIS system allows for receipts to be voided, but office policy forbids a deputy from voiding their own receipts (must have another deputy log in and void the receipt and this is reviewed by audit logs at the end of each month). After all deputies count out for the day and ensure they reconcile with the daily cash drawer report, the chief deputy posts the daily deposit to the general ledger. He/she also prepares the deposit slip, verifies that the deposit for the day is intact/ties back to the total daily

cash/check report, and initials the bank deposit slip. The register takes the deposit to the bank at the end of every work day. If the register is not available to make the deposit, a deputy (not the bookkeeper) makes the deposit at the bank. All cash boxes with the authorized cash on hand (\$100 per box, \$500 authorized by county commission resolution) are locked back in the office vault at the end of the day. Checks are written at various times during the month by the bookkeeper or county clerk. All checks are official, pre-numbered checks that are manually entered into the accounting system, with the exception of the refund checks which are automatically posted when generated by BIS.

Monthly bookkeeping procedures:

Claire performs monthly closing entries and prepares month-end general ledger reports. Butch reviews the monthly bank statement to ensure deposits are being made in a timely fashion, reviews the copies of all checks to verify that all disbursements were made to legitimate vendors/agencies, and then gives the bank statement to the bookkeeper who reconciles the ledger to the bank statement. The bookkeeper then prints/prepares monthly reports to other agencies/departments (revenue report for county trustee and tax reports to the department of revenue). Commissions for the month are posted to the accounting records through the trustee's monthly report (BIS program). Month-end checks are written, and Butch signs the checks after he reviews and signs all month end reports. Butch reviews the bank reconciliation to ensure all reconciling items are legitimate (no plug numbers). Monthly audit reports are printed from BIS software. Butch and Claire review these reports, paying particular attention to voided receipts or changed amounts in transactions and the reasons for the adjustments.

Annual bookkeeping procedures:

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

Inventory of Office Equipment:

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

Internal controls over material expenditure line items:

Payroll- To protect against fraud (ghost employees, unauthorized bonus payments, etc.), all employees have a personnel file maintained by Butch. The register's office utilizes a time clock system that requires all employees to punch in at the beginning of their shift and out at the end of their shift. The employees clock out for lunch and then back in, after their lunch break, to ensure compliance with wage and hour break rules. Butch does not allow employees to perform any work off the clock. At the end of each two-week pay period, the bookkeeper runs an employee timecard total for each employee, and from this, prepares payroll using QuickBooks payroll (since BIS does not have a payroll program). He/she then enters the pay amounts into BIS as a journal entry (transfer out transaction). All employees (including the register himself) are on direct deposit, so there are no payroll checks. However, QuickBooks prints

paystubs that Butch reviews prior to authorizing the payroll run disbursement. The bookkeeper prepares and submits payroll tax reports electronically each pay period and completes quarterly 941 forms and state unemployment returns. Butch reviews and signs these returns prior to them being mailed. Additionally, office policy requires any correspondence (mail) from the IRS to be opened and reviewed by Butch. Claire writes a check to the county finance department for the employee insurance deductions at the end of the month after Butch reviews the deductions. Each year, there is an open enrollment period (January) that all employees must review their benefits they are having payroll deductions for and sign a form that they have reviewed and authorized the deductions.

Maintenance agreements (computer software and copy machine maintenance/support) - The register of deeds has contracts on file for maintenance/support for his office's BIS computer system and the leased copy machine. Butch reviews the invoices from the vendors prior to forwarding them to county finance for payment to ensure the vendors' charges are in compliance with the contracted prices.

III. Whether revenues and expenditures in the register of deeds' fee account and county general fund (as it relates to the register of deeds' office) are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets

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

REGISTER OF DEEDS
SAMPLE SEGREGATION OF DUTIES CHECKLIST
January 2016

Register of Deeds
Internal Control Checklist
Receipts

See Column Instructions Below

Checks Received in the Mail		Daily Receiving and Depositing											
Open Mail, Stamp Checks for Deposit Only, and Make a List of Checks (1)	Issue Receipts for Mail-in Checks (2)	Maintain Separate Cash Drawers (3)	** *** Issue Receipts (4)	Stamp All Checks for Deposit Only when Received (5)	Issue Manual Receipts if Utilized (6)	Post Receipts to Accounting Records (7)	Verify that Mail-in, and Manual Receipts were Recorded (8)	Count Cash Check Out to Certain Amount of Cash (9)	Deposit Intact Verify Cash Check Out and Make Up Daily Deposit (10)	Carry Deposit to Bank (11)	Verify Deposit Slip with Check-out Sheets and Amt. Recorded (12)	Examine Audit Log and Explain Each Entry (13)	Determine that the Trial Balance is in Balance (14)

Seven-Person Office:

Official	X	X	X	X		X		X	X	XX		XX	XX
Employee #1	XX	X	XX	XX		X	X	XX	X	X			
Employee #2	XX	X	X	XX	XX	X	X	XX	X				
Employee #3		X	XX	XX		X		XX	X		X		
Employee #4		X	X	XX	XX		X	XX	X				
Employee #5		X	X	XX	XX		X	XX	X				
Employee #6 - Bookkeeper						XX	XX				XX	X	X

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 and 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 Receiving 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) **When a manual receipt book is utilized.** (The use of a manual receipt book is discouraged when a computerized system is utilized.)
If a manual receipt book is utilized, it must be bound, include the official's title, and be prenumbered. (Receipt books that can be purchased at local stores such as Walmart should not be utilized.) The receipt should have a place to indicate whether the payment was by cash, check, money order, or credit card and a place to indicate the name of the person who issued the receipt.
- (7) 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.)**
- (8) Examine accounting records. Determine that all mail-in (use list prepared in Column 1) and manual receipts were recorded.
- (9) Each employee should 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 person should sign or initial his/her check-out sheet.
- (10) 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) Note: a receiving deputy uses BIS software to post daily deposit to general ledger at end of day
- (11) Carry the deposit to the bank and obtain a deposit slip.
- (12) 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.
- (13) 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.
- (14) Make sure the debits and credits on the trial balance agree. This should be performed each day.

Register of Deeds

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
(1)	(2)	(3)	(4)	(5)	(6)

Seven-Person Office:

Official

Employee #1

Employee #2

Employee #3

Employee #4

Employee #5

Employee #6 - Bookkeeper

	XX		XX		XX
	X				
			X		X
X		X		X	

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. (It is very important to get copies of cancelled checks, front and back, in your bank statements if possible.)
- (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 at least some of the reconciling items to underlying accounting records. Initial and date the reconciliation to indicate the review.

Register of Deeds
Internal Control Checklist
Investment Transactions

See Column Instructions Below

Note: This checklist will normally not be used in the Register of Deed's Office.

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)

Seven-Person Office:

Official	X		X			X			X			X	
Employee #1													XX
Employee #2													X
Employee #3													
Employee #4													
Employee #5													
Employee #6 - 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.

Register of Deeds
 Internal Control Checklist
 Payroll Checks

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

Seven-Person Office:

Official	XX			XX		XX	XX	
Employee #1 (chief deputy)	X			X		X	X	
Employee #2							X	
Employee #3	X							
Employee #4								
Employee #5								
Employee #6 - Bookkeeper	XX	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 other 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.

**Register of Deeds
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)

Seven-Person Office:

Official		X		XX
Employee #1 (chief deputy)				
Employee #2	X			X
Employee #3				
Employee #4				
Employee #5				
Employee #6 - Bookkeeper	XX		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 10th 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