Internal Control Assessment of Sample County Clerk & Master

Purpose: To document an understanding and assess the internal controls of the Sample County Clerk & Master 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 clerk & master are safeguarded against waste, loss, unauthorized use, or misappropriation
3. Whether revenues and expenditures in the clerk and master’s fee account and county general fund (as it relates to the clerk and master) 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 Chancery & Probate Court Clerk’s Office consists of the clerk & master, a bookkeeper, three deputy clerks and one part-time clerk. An in-depth analysis of the internal control environment for the operations of the Sample County Clerk & Master’s office was performed by Clerk and Master Davy Crockett, his employees and a CTAS County Government Consultant.

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

Purchasing:

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

Purchase Orders:

Carly Fiorina (C&M bookkeeper) will fill out all purchase order requisitions with the county finance department. Davy will sign the requisitions and coordinate with the county finance department to ensure there is funding available in the line item for the purchase, and that the vendor is on the approved vendor list. The county finance department issues the purchase order which authorizes the purchase to be made. Davy and Carly will then place the order with the vendor. When goods arrive, the same people verify that the goods received are what are itemized on the invoice. The invoice is then initialed as goods received and forwarded to county finance for payment by accounts payable. There are no charge accounts (blanket purchase orders) at local stores.

Store cards:

The clerk and master’s office does not have an assigned store card, however, Carly is authorized to utilize the Walmart card that is assigned to the county finance office. When the office needs to purchase an item from Walmart, Carly will prepare a purchase order requisition, Davy will sign it, and Carly will then get a purchase order from county finance along with the Walmart card. Carly will purchase the goods and bring the receipt and card back to county finance. Any unspent amount of the purchase order is closed after Carly initials the purchase order to verify that goods were received. Penny and Angela will go to these stores for needed purchases that are then applied to blanket purchase orders.

Contracts:

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

Emergency purchases:

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

Payroll:

Payroll is authorized each fiscal year through a letter of agreement prepared by county finance and signed by the mayor and Davy after the adoption of the county budget. Davy receives a copy of the adopted budget after the county commission approves it. He then receives a monthly year-to-date expenditure vs. budget report from county finance each month. Carly is responsible for bringing any anticipated budget overages to Davy's attention so he can inform county finance that a budget amendment is needed. All payments to employees are paid thorough payroll accounts (not vendor accounts) in order to comply with IRS tax code for payroll taxes, state unemployment compensation, workers’ comp laws and TCRS requirements.

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

***See Excel Internal Control Checklist for more detail (the below information is in summary format).***

Overview:

The audited financial report detailed expenditure statements were reviewed to identify expenditures of material amounts. In the clerk & master’s office, material expenditure amounts were payroll, data processing services, and in-service/staff development. Internal controls over these material costs were scrutinized in-depth.

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

The clerk & master’s office utilizes a computerized accounting system (TNCIS) for receipting and accounting. The software will print checks from pre-numbered check stock that the clerk & master and one of the court deputies will sign (two signatures required on each check). The office has a written disaster recovery plan, and the system is backed-up daily. The backup disk is stored off-site in a safe deposit box.

Daily receipting of payments into the clerk & master’s office are entered by any deputy court clerk except the bookkeeper. Cash boxes with locks (each individual deputy has a key for the cash box assigned to them) are maintained by each deputy court clerk. The cash boxes are counted and balanced each day by the bookkeeper (bookkeeper and two deputies must initial in a journal that shows the balances match). The cash boxes with the authorized cash on hand ($100 per box, $400 total authorized for cash on hand by county commission resolution) are locked in the vault when the work day is done, and the daily work has been counted and balanced. Deposits are made no less than twice a week. Daily balances are crossed-checked with deposits. Bank deposits will be prepared by any deputy other than the bookkeeper. All disbursements and reports must be approved and signed by the clerk & master. Checks are written at various times during the month by the bookkeeper after the pre-check register has been verified. Checks require two signatures and may be signed by the clerk & master and any deputy clerk designated by the clerk & master (the bookkeeper is prohibited from signing checks). Court deputies Penny, Angela, Kelly Bean, and the clerk and master are the only bank authorized signers.

Carly performs daily, monthly, and yearly accounting functions for the general, child support, investments, court funds and tax funds. She also maintains balance reports, works with the other court deputies to balances cash drawers daily, verifies that all collected funds are receipted and works up the daily deposit. Amy then recounts the collected funds and verifies that the collected funds match with the daily receipt total report. Davy then takes the deposit to the bank. If Davy is out on vacation or sick, then Tina takes the deposit after Amy reviews the collections. When Davy returns from the bank, Carly will initial deposit slips after she checks that the deposit was made intact with what is posted as the deposit in the accounting records.

Carly reviews/analyzes accounts due to overpayments or other discrepancies, researches partial or duplicate payments, makes appropriate adjustments to accounts and processes paperwork to issue refunds as appropriate. Carly must notify Davy of any discrepancies or adjustments made along with the proper footnote or journal entry. Davy reviews any journal entries made during the month when he reviews the month-end reports. Davy also reviews TNCIS audit logs monthly to ensure that any adjusted entries or voided receipts are legitimate and identified by him.

Carly prepares various monthly and yearly financial reports including I.R.S., TN. Department of Revenue, etc. She prepares all financial reporting forms or other documentation, compiles data for report preparation, submits reports/forms to appropriate individuals as well as reconciles monthly budget reports. When applicable, Carly is responsible for collecting the required I.R.S. information from the vested party(s), individual(s), or attorney(s) who are receiving a taxable settlement and/or compensation. In addition, Carly the court accountant reviews the documents, and calculates and prepares all appropriate I.R.S. forms. Davy will review these reports and sign them before they are forwarded on to the appropriate state/federal agency.

Investments:

All court funds (with a court order to place in interest bearing funds for the benefit of the litigant) are placed in interest bearing investment accounts. Investments are limited to state authorized investment accounts (CDs, Money Market Accounts, CDARS program, etc.). If Davy had a question about the legality of a potential investment, he would contact the state treasurer’s office.

Delinquent tax sales:

All sales are authorized by a court order which are kept on file at the clerk’s office. Since these sales are done during regular work hours, no supplemental payments are made to court deputies for work performed.

Unclaimed funds:

Carly does an in-depth review of the docket trial balance and the outstanding check list each year to identify any unclaimed funds that are greater than one year old. Carly prepares due diligence letters for all old, unclaimed funds. Davy will review and sign these letters. Any funds still not claimed after due diligence letters have been mailed are filed with the State Unclaimed Property Division.

Litigation taxes and fees:

Davy reviews the litigation taxes and fees that his office charges annually and coordinates with the AOC to ensure what is being assessed on each case is in compliance with the law and up to date. Davy maintains a folder with copies of certified county commission resolutions authorizing all county optional litigation taxes (courthouse renovation, etc.) and fees (archives, etc.) that his office collects. Davy utilizes the flat fee system. The majority of cases filed in the clerk and master’s office require all taxes and fees to be paid up front (except indigent cases with a court order). Therefore there are very little taxes or fees (e.g., continuances, show causes) that are not paid on the front end of filing the original motion. The small amount of unpaid taxes and fees are turned over to a third party collection company to attempt collection as authorized under T.C.A. 20-12-144.

Payroll:

The clerk and master's office deputies are paid every two weeks through the county finance department and receive their pay via direct deposit. Each court clerk deputy prepares a manual timesheet that includes hours worked and any annual/sick leave taken. At the end of the pay period, Davy will review and approve each employee’s timesheet and updates an office leave accrual Excel spreadsheet for annual/sick time earned and used. Davy then forwards the signed timesheets to the county finance office for payroll processing. Davy does not utilize overtime but provides his deputies comp time in the rare occurrences they work greater than 40 hours a week. County finance maintains a personnel file for each employee with a copy of the authorization for the current pay level for each employee along with signed copies of the forms authorizing any payroll deduction. To guard against ghost employees and to ensure accuracy of payroll disbursements, Davy reviews the itemized check listing each pay period.

1. Whether revenues and expenditures in the clerk and master’s office are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets

Carly is responsible for coordinating with the county trustee office to ensure all receipted funds are coded to the correct revenue line item each month. Davy coordinates with the county finance department to ensure purchase orders for non-payroll items are coded to the correct object code and expenditure budget. Davy reviews the accrued leave liability for his deputies at the end of the fiscal year and gives a copy of this to the finance department. Davy reviews the year-end trial balance, closing entries and bank reconciliations with Carly, and this information is placed with the month-end and year-end reports for the independent auditors. Davy pays particular attention to ensure that subsidiary ledgers (investments, docket trial balance, court funds, etc.) are detailed, reconciled to the general ledger trial balance, and do not contain “plug numbers” to balance. Carly completes the annual financial report and files this with the county mayor and county clerk. Carly coordinates with the county finance office to ensure capital asset records for external reporting purposes are up to date and in compliance with county capital asset policies for any capital assets that are assigned to the clerk and master’s office and require tracking.