Internal Control Assessment of Sample County Highway Department

Purpose: To document an understanding and assess the internal controls of the Sample County Highway Department 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 highway department are safeguarded against waste, loss, unauthorized use, or misappropriation
3. 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 Sample County Highway Department was performed over a two and a half day period by multiple county highway and finance department employees, as well as Pedro Gonzales, county road superintendent, and Rico Suave, the CTAS field consultant

**Highway Department**

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

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

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

Purchase Orders: Pedro Gonzales (Road Superintendent) will originate a purchase order requisition with the county finance department and Pedro or Ursula Winters (office manager) 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. The county finance department issues the purchase order which authorizes the purchase to be made. Pedro, Ursula or a county highway employee 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 highway department, Ursula 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, Ursula verifies with the shop employees that the goods received are the goods on the shipping list/invoice. The invoice is then initialed as goods received by Pedro and forwarded to county finance, along with the copy of PO requisition and gold copy of purchase order for payment by accounts payable. The highway department can utilize blanket purchase orders with numerous vendors (hardware store, auto parts store) and the vendor will send a monthly invoice, which Ursula reviews against the individual shipping tickets to verify they are legitimate county purchases of goods and that the person that picked up the goods at the store is a highway employee.

Store cards: Walmart and Lowes cards are kept locked up when not in use in Ursula’s office in a filing cabinet. Ursula will go to these stores for needed purchases after a purchase order is originated for the purchase and approved by Pedro and the county finance department. Blanket purchase orders are not utilized for the store cards so every individual purchase with the cards is approved by the road superintendent prior to purchase. Ursula and Pedro will review the monthly invoices from these store card purchases together at the end of the month and then send the invoice over to the finance department with the purchase requisition and gold copy of the approved purchase order for payment.

Credit Card: The Sample Highway Department does not utilize credit cards.

Contracts: Per Sample County purchasing policy, the county finance director signs all county contracts dealing with purchasing. Once competitive bids are opened by the county finance office, the county road board reviews and awards the bids based on best and lowest price. All contracts that are over one year in length are approved by the county commission after the county attorney reviews them. Ursula and Pedro coordinates with the county finance department to ensure contract compliance per county purchasing policy.

Emergency purchases: The road superintendent (Pedro) 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 highway department complies with these policies.

Payroll: Payroll is authorized each fiscal year through the annual county budget appropriation for the highway fund that is prepared by Pedro and then sent to the county commission for approval in compliance with the county uniform highway law. Ursula receives a copy of the adopted budget and then receives a monthly year-to-date expenditure vs. budget report from county finance each month. Ursula and Pedro will bring any anticipated, foreseeable budget overages to the attention of county finance in order that a budget amendment can be prepared timely. All payments to employees are paid thorough payroll accounts (not vendor accounts) in order to comply with IRS tax code for payroll taxes and state unemployment compensation and worker comp laws.

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

Overview: The audited financial report detailed expenditure statements was reviewed to identify expenditures of material amounts and then internal controls over these items were scrutinized. In the highway department, material expenditure amounts were: payroll, liquid asphalt, crushed stone, diesel fuel, highway equipment, equipment and machine parts, and highway construction. Assets of the highway 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. 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 insure compliance with internal controls over receipting at the highway department. The highway department does not maintain a bank account since all accounting for the department, except receipting, is handled by the county finance office. The highway department does not disburse checks as this is a duty of the county finance department as well. The highway department receives checks from the local library, property assessor, county agriculture center, county veterans’ office, county finance office and the county solid waste department for gas reimbursement, scrap metal sales from the local scrap yard or from government deals for surplus property sales. The county highway department does not receipt cash.

1. Ursula Winters (office manager) will receipt checks into an official, pre-numbered receipt book and lock the receipted checks into a locked filing cabinet in her office.
2. Ursula will carry the receipted checks within three business days over to the county trustee’s office and deposit these funds with the county trustee. The county trustee will issue a trustee receipt that Ursula will take back to the highway department office and keep on file. The trustee receipts are capable of being reconciled back to the individual highway department receipts that make up the total deposit that was made at the highway department. Pedro and Ursula keep a notebook at the highway department and enters into it an up-to-date cash with trustee balance of the highway fund by coordinating with the county trustee and finance office as an additional “check” to ensure that the cash with trustee balance is correct on the financial records of the county finance department.

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

Bulk fuel pumps: The county highway department maintains bulk fuel pumps at the highway garage for diesel and gas needs. Fuel is competitively bid by the county finance department and is delivered to the bulk tanks by the vendor. Gasoline is purchased by the highway department and used for official highway business and sold to other county departments (see above) as well for county business. Tickets are completed by the county employees getting the fuel when vehicles are filled at the county pumps, which are located right outside the highway department office’s window. These tickets are summarized by Ursula (office manager) and expensed/billed to the various county departments monthly. The highway department has never had a problem with the other county departments paying their fuel bills timely. When the bulk fuel tanks get low, Ursula 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 switch box is padlocked (Highway superintendent, office manager, shop foreman and assistant superintendent have keys). The main gate to the highway department is padlocked at closing time as well.

Payroll: To protect against fraud (ghost employees, unauthorized bonus payments, etc.) all highway department employees have a personnel file maintained in the highway department office by Pedro and Ursula. 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 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 pay period, Ursula (office manager) 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 submits this summary report to the county finance office for payroll processing. Ursula keeps a detailed balance per employee of accumulated sick, vacation and personal leave on file. Some employees are on direct deposit, others receive paper checks from Ursula after Pedro reviews the checks (and stubs for direct deposit). Personnel policy for the highway department caps the vacation accrual per employee at 3 weeks, sick time is capped at 96 hours and personal time at 160 hours. Any sick time not used at calendar year-end is paid out and the employee starts over accruing 8 hours per month. When/if an employee exceeds the maximum vacation/personal time cap (which is rare) then they are sent home for a day off as these overages are not paid out. An annual leave accrual summary is calculated by Ursula for external financial reporting purposes at the end of the fiscal year and forwarded to the county finance office. Ursula and Pedro 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 culvert and cold mix:

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 prepare a trip ticket that Ursula and Pedro use to reconcile the tonnage to the last large delivery runs. The rock is tracked to each job site (road, bridge, right-of-way easements) by the road and bridge computer capitalization 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 prepare a trip ticket that Ursula and Pedro use to reconcile the culvert taken to the inventory on hand. The culvert is tracked to each job site (road) by the road and bridge computer capitalization software system.

A small load of cold mix (20 tons) is 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. Pedro keeps an eye on the quantity on hand and based on his numerous years of experience, would know if there was abnormal shrinkage of the cold mix.

Inventory of vehicles and large equipment: Ursula maintains an inventory of assigned vehicles on the highway capital asset software system. The inventory software records vehicle make, model, year, description, year purchased, purchase price, and VIN. Ursula 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. Pedro will enter in any new purchases of vehicles and equipment into the highway department capital asset software and delete any surplus sales of equipment after these assets are no longer in use and declared surplus and sold. Pedro and his assistant road superintendent communicate to the county highway employees that no work or material is to be used for anything except county roads and jobsites.

Inventory of small equipment and tools: An inventory of small equipment, furniture and tools assigned to the county highway department is maintained and updated annually by Donald Duck, highway shop employee. Any missing items when the inventory is done are reported to Pedro. All tools that are not assigned to vehicles are kept in the highway department maintenance shop.

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 Pedro and a bulk carrier is dispatched from 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 Ursula and Pedro in the road capitalization software system as well as reconciled back to the bulk load invoice. If there is a small amount of leftover liquid asphalt then the highway department will maintain this material in the 1500 gallon distributor truck for use in the county owned Dura-patch machine to be used for small patch jobs (road cuts, shoulder work, etc.) around the county. In the rare instance that there is a large quantity of liquid asphalt remaining in the vendor’s delivery truck, the material is returned for a vendor credit.

Hot mix asphalt: Hot mix is competitively bid out in compliance with county purchasing policy. A third party is contracted to haul hot mix to the job site and to do the actual paving for large jobs. Pedro 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 county highway 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 Ursula.

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. Pedro works closely with TDOT to ensure that grant requirements are met. All state-aid paving is capitalized and tracked on the highway capital asset software system.

Bridge construction: Bridge construction/replacement is bid out to a third party contractor and engineer in compliance with county purchasing policy and grant requirements. Pedro 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. Pedro enters the cost of the bridge construction/replacement into the highway capital asset tracking software when the final cost is determined.

1. 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

Ursula 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. Ursula and Pedro coordinate with the county finance department to ensure purchase orders for non-payroll items are coded to the correct object code and expenditure budget. Ursula coordinates with the county finance office to ensure that capital asset records for external reporting purposes are up to date and in compliance with county capital asset policies.

Ursula and Pedro 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 by the county finance office 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, that the county finance office is notified that a budget amendment will be requested.

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

Corrective action of any identified internal control deficiencies from independent audit: Pedro would review any audit findings that noted internal control deficiencies in the highway department operations and would seek to correct these weaknesses. As noted in Sample County’s prior year audit, the highway department has no audit findings.