



County Technical Assistance Service
INSTITUTE FOR PUBLIC SERVICE

INTERNAL CONTROLS

FINANCE DEPT/MAYOR

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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 finance department are safeguarded against waste, loss, unauthorized use or misappropriation and (III) Whether revenues and expenditures in the finance department's fee account and county general fund (as it relates to the finance department) 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.

FINANCE DEPARTMENT
SAMPLE INTERNAL CONTROLS QUESTIONNAIRE
January 2016

Sample Internal Control Assessment Questions

County Finance Department

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 finance office are safeguarded against waste, loss, unauthorized use or misappropriation, and (III) Whether revenues and expenditures in the finance department's office and county general 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.

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

Budget adoption:

- a) Does the county have an adopted policy to set forth the budget process?
- b) Does the county have any additional guidelines to assist in the budget adoption process?
- c) Who must approve the original budget?
- d) What type of software is used in the finance department?
- e) Is the original budget posted to the software? Who posts it?
- f) Who reviews the budget to ensure accurate posting of the original budget?

Budget amendments:

- a) Who coordinates with the various county departments and the county finance committee to monitor the adopted budget through the year to ensure that any amendments are made promptly and before an overage occurs?

Purchasing:

- a) Has the county adopted a policy for purchasing?
- b) Which purchases are excluded from having a requisition approved by the county finance office?
- c) Who receives the requisitions in county finance from the other departments to verify available funding in the budget?
- d) Who issues the purchase order once the funding is verified?
- e) Who enters the purchase order into the accounting software?
- f) How does the finance department ensure the ordered goods were received?
- g) What happens to the purchase order after this step if the goods were received?
- h) Who prepares the checks for payments?
- i) Does the office negotiate early discount payments? If so, who does this?
- j) When will the vendor receive payment (net 30 days if no discount)?

Store cards:

- a) What store cards (e.g. Walmart, Lowe's) are maintained in the finance department?
- b) How are they secured?
- c) What process is used for other departments to utilize the cards?
- d) Are blanket purchase orders utilized for some store card purchase orders?

Credit card:

- a) Does the county have an adopted credit card policy?
- b) How many cards does the finance office have?
- c) How are they secured?
- d) For what type of purchases are these used?
- e) What process is used for other departments to utilize the credit cards?
- f) Who is responsible for signing off on the credit card invoices for all purchases made in each department?

Contracts:

- a) Who signs all county contracts dealing with purchasing?
- b) Over what amount must contracts be competitively bid? Are quotes solicited for contracts below competitive bid amounts?
- c) How are contracts over 12 months approved?
- d) Who coordinates with the individual county departments to ensure contract compliance from the vendors?
- e) All grant contracts must be approved by whom? And who must sign them?

Emergency Purchases:

- a) If the county has an emergency purchases policy, who enforces the policy?
- b) Who signs the emergency purchase justification form?

Payroll:

- a) How is payroll authorized each fiscal year?
- b) Does the finance director assist the county officials with completing their letters of agreement if requested?
- c) Who monitors all county payroll line items during the fiscal year to ensure payroll costs do not exceed county commission approved amounts without a budget amendment first being approved?

Employee Benefits:

- a) Does the county participate in TCRS for full-time employees?
- b) Are any employees allowed to maintain health insurance after they retire? Which ones?
- c) Who monitors the OPEB and pension obligations for the county along with a contracted actuary?
- d) Who is responsible for ensuring compliance with the county personnel policies so that only eligible county employees/retirees receive OPEB and pension benefits?

- e) Who reviews the status of the county employees and retirees to check for eligibility status for these benefits? How often?

Vacation and leave obligations:

- a) Who coordinates with county payroll clerks and various county departments and offices to ensure that all vacation/sick/compensatory time that is accrued is accounted for accurately and is in compliance with county personnel policies and within legal limits (comp time)?

Debt issuance and management:

- a) Who coordinates with the financial adviser (bonds) and financial institutions (capital outlay notes) to ensure that the county is in compliance with the adopted county debt management policy and state law?
- b) Who is responsible for an annual review of the county debt management policy?
- c) Who reviews all leases for equipment (copiers, office equipment) to guard against the county entering into a capital lease by accident?

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

Control Environment:

- a) Do all finance department employees have written job descriptions?
- b) Are criminal background checks performed prior to employment?
- c) How does the director set the tone for the office?
- d) How does the director communicate what is expected of the finance department personnel?

Physical security of the office:

- a) Who has a key to the finance 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?

Receipting:

- a) Who is assigned to open mail, stamp checks "For Deposit Only #account number" immediately upon receipt?
- b) 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.
- c) Whose bank account number is on the stamp?
- d) Who is responsible for issuing receipts for the mail-in checks in a pre-printed receipt book?
- e) How are daily funds secured?
- f) Who is responsible for securing them?
- g) Who manually issues receipts for over-the-counter checks in the pre-printed finance department receipt book?

Disbursements:

- a) Who collects the payroll change notices from department heads/elected officials?
- b) Who checks the employee database and current fiscal year budget for availability of funds for the changes being requested in regard to payroll/staff?
- c) Who performs new hire orientation, and/or processes the approved changes in the payroll software?
- d) Who checks data entries for employee additions or changes in the payroll software to ensure accuracy?
- e) Who physically enters invoices and prepares for the issuance of checks?
- f) Who physically prints checks and prepares the checks for signature?
- g) Who determines the reason and examines documentation for the issuance of the check?
- h) Are two signatures signed on county non-payroll checks? Who signs for each department? Who are the backup signers?
- i) Who processes the signed checks and invoices, stubs, check copies and mail?
- j) Who reconciles the accounts payable bank statements with the trustee and finance software?
- k) Who collects timesheets to indicate approval of the hours worked and leave calculations?
- l) Who calculates salaries and deductions in software and proof with a co-worker?
- m) Are all timesheets recalculated, signed by the employee and signed as approved by the employee's supervisor? Does the finance director ensure this has been done in every case? Does each and every employee complete some form of time and attendance record leave taken, leave balance as well as time worked?
- n) Who is responsible for processing payroll and posting it to the general ledger?
- o) Who uploads check stubs into eStub software?
- p) Does the county issue physical payroll checks? If so, who signs them?
- q) Who determines ACH accuracy and uploads to the bank online treasury management to build and release the files for the necessary date(s)?

- r) Who determines that all payroll deductions are paid to proper payee and that payroll deductions clear out for each payroll period?
- s) Who calculates the amount of the payroll tax deposit by utilizing payroll records?
- t) Who approves the amount of the payroll tax deposit by utilizing payroll records?
- u) Who approves the amount of the payroll tax deposit then electronically makes the payroll tax deposit or supervises the performance of this procedure?
- v) Who verifies the amounts of the payroll tax deposit and signs the payroll or other payroll deduction checks?
- w) Who mails or delivers the checks as applicable?
- x) Who scans/reviews the payroll ledgers/registers for obvious errors or miscalculations, notes the total payroll amount and the department totals?
- y) Who scans the ledgers for new employees or employees that have no payroll deductions?
- z) Who scans overtime, compensatory time, persons who are paid from more than one account code and similar unique items to determine the reasonableness of the amounts?

Journal Entries:

- a) Who is responsible for detecting errors in the monthly budget reviews?
- b) What type of form is used for journal entries?
- c) Does the form record debits and credits and explain the transaction in detail for each journal entry? Is documentation attached as necessary?
- d) Who approves all journal entries? Who is designated in the event of an absence?
- e) Who is responsible for data entry?
- f) Who is responsible for reviewing the pre-post general ledger reports for approval?
- g) Who posts the approved entries?

Grant Management:

- a) Who works with all county personnel to ensure the grant procedures are followed in accordance with the county policy?
- b) Who receives a pre-grant application form or application/approving resolution for federal, state, or other grants?
- c) Who approves and sends the grant application to the county commission for approval?
- d) Who all is authorized to sign a grant on behalf of the county in each department?
- e) Is the most recent version of the U.S. Office of Management and Budget's uniform administrative requirements, cost principles and audit requirements for federal awards on file at the finance office?
- f) Who is responsible for knowledge of the contents in the OMB document, the grant contract and seeks any clarification from federal, state or other grant program management personnel?
- g) Are all grant documents maintained in the finance office?
- h) What documents are kept in each file?
- i) Are internal control procurement policies maintained in the office?

- j) Are revenues and expenditures for each federal or state grant maintained in separate revenue expenditure accounts or cost centered so that each grant can be easily recognized and accounted for in the county's accounting records?
- k) Who is responsible for maintaining the county and highway grants?
- l) Who is responsible for maintaining the school grants?
- m) Who provides backup for the two previous responsibilities?

Capital assets

- a) Does the county have a fixed asset policy in accordance with GASB 34?
- b) What is the capital assets threshold?
- c) How is equipment purchased with grant money marked or tagged?
- d) Who prepares and maintains the inventory of all county assets?
- e) Who physically inspects the inventory? How often?
- f) Does each department mark its inventory and submit an inventory list to the county mayor's office annually?
- g) Who maintains fixed assets?
- h) Who physically observes the equipment in each department annually?
- i) Who maintains and updates the inventory list in the finance office?
- j) Does the county have any real property lease agreements?
- k) Who monitors the agreements and payments to the county?

Payroll:

- a) Do all new county employees physically come to the finance office to get set up on payroll?
- b) Do all employees who request a change in payroll direct deposit physically come into the office to sign the necessary forms?
- c) Are supervisors of terminated/retired employees required to promptly submit a form to county finance to end payroll payments?
- d) Who is responsible for catching the mistake if the supervisor fails to send the form?
- e) Who performs a comprehensive payroll audit for all county offices in the spring during annual budget development to ensure all employees have supporting documentation?

Surplus county property:

- a) Who in the office administers the sales of surplus county equipment, real property or other personal property after it has been declared surplus?
- b) Who handles the transfer of surplus property to other governmental entities or county departments?
- c) Does the department adhere to the county's policy for disposal of surplus property?

III Whether revenues and expenditures in the finance office and county general 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

Expenditures and revenues:

- a) Does the finance office perform monthly reconciliations for all funds with the county trustee?
- b) Who is responsible for ensuring that revenues and expenditures are coded correctly?
- c) Who sends a copy of the month end reports to all county department heads and officials for review?
- d) Who posts all purchase orders and contracts to the software as encumbrances to assist with ongoing monitoring of the appropriation budget?
- e) Who reviews the budget of each fund to ensure the original approved budget and any subsequent budget amendments are posted correctly to the accounting software?
- f) Does the office have a year-end checklist for each report needed by audit?
- g) Who prepares and reviews depreciation and capital asset reports?
- h) Who is responsible for identifying and correcting internal control weaknesses within the finance department?
- i) How does the finance department stay up to date on state law pertaining to accounting, purchasing and budgeting?

FINANCE DEPARTMENT
SAMPLE INTERNAL CONTROLS ASSESSMENT
January 2016

Internal Control Assessment of Sample County Finance Department

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

- 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 finance department are safeguarded against waste, loss, unauthorized use or misappropriation
- III Whether revenues and expenditures in the county funds are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets

Overview: An in-depth analysis of the internal control environment for the operations of the Sample County finance department was performed over a four-day period by multiple county finance department employees, Red Sonja (county finance director) and Rico Suave (CTAS county government consultant). The finance department consists of a finance director, deputy finance director and eight staff members.

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. Ensure that all debt is issued in accordance with statute.

Process of adoption of original annual budget: The county operates under the County Financial Management System of 1981, which sets the budget process. Additionally, the county finance committee has adopted a written budget adoption calendar to help guide the finance committee through the budget adoption process. Once the original budget is adopted and accepted by the state division of local finance and the state department of education, the county finance director

posts the original budget to the office's LGC software. After the original budget is posted by the finance director, the deputy finance director will review the posted budget line items (in LGC software) with the commission-approved budget to ensure accurate posting of the original budget.

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

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

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

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

purchases made by their department each month before the store card invoice is paid. Blanket purchase orders are utilized for some store card purchases.

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

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

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

Payroll: Payroll is authorized each fiscal year through the annual county budget appropriation, and letters of agreement are used for the constitutional officers. The county finance director assists the county officials with completing their letters of agreement if requested. The finance director

monitors all county payroll line items during the fiscal year to ensure that payroll costs do not exceed county commission approved amounts, and the authorized amounts in the letters of agreement if applicable, without a budget amendment and/or amendment to the letter of agreement first being approved.

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

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

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

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

Control environment: All finance department employees have written job descriptions and have criminal background checks performed prior to employment with the county finance department. The finance director sets the tone for her office with a written mission statement that stresses accountability for public funds and compliance with the County Financial Management System of 1981 which is posted on the wall of the office and on the department's website. Additionally,

the finance director communicates to her staff through annual employee evaluations that integrity, ethical behavior and competence in job skills are expected of county finance department personnel. All new hires in the county finance office are required to have a criminal background check prior to starting work.

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

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

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

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

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

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

III Whether revenues and expenditures are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets

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

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

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

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

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

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

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

FINANCE DEPARTMENT
SAMPLE SEGREGATION OF DUTIES CHECKLIST
January 2016

County Finance Director
Internal Control Checklist
Receipts

See Column Instructions Below

Checks Received in the Mail		Daily Receipting and Depositing					
Open Mail Stamp All Checks for "Deposit Only" When Received	Issue Receipts for Mail-in Checks	Maintain Separate Cash Drawers	*** Issue Receipts for Over-the- Counter Checks	Stamp All Over-the- Counter Checks for "Deposit Only" When Received	Deposit Intact Check Out and Make Up Daily Deposit	Deposit all checks in the Trustee's Office	Verify Trustee's receipt with Check-out Sheet
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

Seven-Person Office:

Finance Director	
Deputy Director Employee #1	
AP/Admin Employee #2	
AP/Admin Employee #3	
AP Employee #4	
AP/Payroll Employee #5	
Payroll Employee #6	
Payroll Employee #7	

					X		XX
X					XX		X
XX	XX	XX	XX	X		X	
XX	X	X	X	XX		XX	
							X

Column Instructions:

- XX** The Person indicated by the XX is the preferred person to perform the procedure.
- (1)** Two employees are assigned to open mail, stamp checks " For Deposit Only Acct# XXXXXX0954" immediately upon receipt. The acct. # on the stamp is the Trustee's Bank Account Number.
- (2)** Issue receipts for the mail-in checks in preprinted receipt book.
- (3)** A locked bank bag is issued to the employee responsible for receipting funds for that day
- (4)** Manually issue Receipts for Over-the-Counter Checks in the preprinted finance dept. receipt book.
- (5)** Stamp All Checks for "Deposit Only Acct# XXXXXX0954" immediately upon receipt.
- (6)** Combine the checks & money order receipts from the locked bank bag. Make an itemized list of all checks and money orders and total the list (Excel File). The deposit is made intact for each day or period. We aim to make deposits with the trustee daily. Keep all collections in a locked safe or file drawer until the deposit is made if deposits are not daily.
- (7)** Carry the deposit to the trustee's office and obtain a receipt from the trustee for the amount of the deposit.
- (8)** Verify that the amount on the trustee's receipt agrees with the check-out list from Column 6. Initial and date the trustee's receipt to indicate the review. Attach the trustee's receipt to check-out list and file for audit.

County Finance Director
Internal Control Checklist
Issuing Non-Payroll Checks

See Column Instructions Below

Issuing Non-Payroll Checks

Non-Payroll Checks		Signature Authority		
Enter Invoices	Print & Attach Invoices Checks	Verify Amt. and Sign	Process & Mail Checks	Reconcile Acct Pay. Bank State.
(1)	(2)	(3)	(4)	(5)

Seven-Person Office:

Finance Director
Deputy Director Employee #1
AP/Admin Employee #2
AP/Admin Employee #3
AP Employee #4
AP/Payroll Employee #5
Payroll Employee #6
Payroll Employee #7

		XX		
		X ~		X
XX	XX		X	
XX			XX	
XX	X		X	
				XX

Column Instructions:

XX	The person indicated by the XX is the preferred person to perform the procedure.
~	This person should only sign checks when the Finance Director is absent. See Column 2 Instructions.

Issuing Checks -

- | | |
|-----|--|
| (1) | Physically enter invoices and prepare for issuance of check. |
| (2) | Physically print checks & prepare the checks for signature. |
| (3) | Determines the reason and examine documentation for the issuance of the check. Sign the checks. Sample County non-payroll checks require two signatures and are signed by the following: County Funds- County Mayor & Finance Director; Highway Fund- Highway Superintendent & Finance Director; School Funds- School Board Director & Finance Director. Backup signers for the Finance Director is the Finance Deputy Director, and the chairman for the other departments serve as backup signers. |
| (4) | Process the signed checks and invoices, stubs & check copies and mail. |
| (5) | Reconcile the accounts payable bank statements with the trustee and finance software |

**County Finance Director
Internal Control Checklist
Payroll Checks**

See Column Instructions Below

Issuing Payroll Checks

Obtain Time-sheets. from Department Heads	Approve or Determine that Leave Balances/ Time-sheets have been Approved	Process Payroll Post to Gen Ledger & Online Check Stubs	Process Payroll ACH Direct Deposit	Determine that Payroll Deduction Accounts Clear out for each Payroll	Determine Amount of Payroll Tax Deposit	Approve Payroll Tax Deposit Sign Acct Pay Checks	Make the Necessary Deposits Net Pay & Taxes	Review Payroll Ledger / Register for Reasonableness
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

Seven-Person Office:

Finance Director						XX		X
Deputy Director - Employee #1						X		X
AP/Admin - Employee #2							X	
AP/Admin - Employee #3							XX	
Acct Payable - Employee #4								
AP/Payroll - Employee # 5	X	X	XX	X				
Payroll - Employee # 6	XX	XX	X	XX	XX	X		XX
Payroll Employee #7		X			X	XX		

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 from each department head.

(2) Sign the time sheets indicating approval of the hours presented and leave calculations, as applicable. Calculate salaries and deductions in software and proof with co-worker. All time sheets/cards are recalculated, signed by the employee, and signed as approved by the employee's supervisor. The Finance Director should ensure this has been done in every case. Each employee, even salaried employees, should complete some form of time and attendance record. Time and Attendance records should indicate leave taken and leave balances as well as time worked.

(3) Process payroll and post to general ledger. Upload check stubs into eStub software. Sample County doesn't issue physical payroll checks except in case of emergency, then checks are signed manually by the finance director or deputy finance director.

(4) Determine ACH accuracy and upload to bank online treasury management, build and release file for the necessary date(s).

(5) Determine that all payroll deductions are paid to proper payee and that payroll deductions clear out for each payroll period.

(6) Utilize payroll records to calculate the amount of the Payroll Tax Deposit.

(7) Approve the amount of the payroll tax deposit. Then electronically make the payroll tax deposit or supervise the performance of this procedure. Verify the amounts, sign the payroll or other payroll deduction checks.

(8) Mail or deliver, or deposit checks as applicable.

(9) The bookkeeper scans/reviews the payroll ledgers /registers for obvious errors or miscalculations and notes the total payroll amount and department totals. Scans the ledgers for new employees, employees that have no payroll deductions, look at overtime, compensatory time, look for persons who are paid from more than one account code, and similar unique items. Considers whether or not the amounts appear reasonable.

County Finance Director
Internal Control Checklist
Cash Reconciliations

See Column Instructions Below

Cash with Trustee - All Funds						Cash in Bank - All Funds			
Obtain the Trustee's Monthly Report	Obtain a list from the Trustee or prepare a list of outstanding checks.	Reconcile the Trustee's Cash Balance to Fund Cash	Investigate Old Outstanding Checks or Unusual Items	**	Receive, Open, and Review Bank Statements and Cancelled Checks	Perform Bank Reconciliation	Review Bank Reconciliation and Trace Reconciling Items and Balance to Acct. Records	**	
				Prepare any Necessary Adjusting Journal Entries				Prepare any Necessary Adjusting Journal Entries	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	

Seven-Person Office:

Finance Director	XX		XX		XX			XX	XX
Deputy Director - Employee #1	X	X	X		X		XX	X	X
AP/Admin - Employee #2									
AP/Admin - Employee #3									
Acct Payable - Employee #4									
AP/Payroll - Employee # 5				X					
Payroll - Employee # 6									
Payroll Employee #7		XX		XX		X	XX		

Column Instructions:

XX	The Person indicated by the XX is the preferred person to perform the procedure.
**	See additional instructions for Journal Entries under the Journal Entries Tab.

Cash with Trustee Reconciliation

- (1) The trustee provides a report of receipts, disbursements, and cash balances during the month or shortly after the end of each month.
- (2) Determines which checks are outstanding and, therefore, not yet deducted from the trustee's cash balance. Makes a list of outstanding checks. Includes the date of issuance, the payee, and the amount for each outstanding check.
- (3) Reconciles the general ledger account - "Cash with Trustee" - to the cash balance shown on the trustee's report for each fund under the authority of the financial act of 1981.
- (4) Finds out why old outstanding checks have not cleared. Investigates any other unusual items from the trustee's report.
- (5) Often there are differences between the trustee's cash balance and the general ledger account - "Cash with Trustee" other than outstanding checks. For example, the bank paid a check for an amount different from the amount it was written for fund transfers, and receipts or disbursements posted to the wrong fund via manual checks, etc. These types of differences may require a journal entry to bring the Trustee's cash balance into agreement with the General Ledger Account - "Cash with Trustee". Differences should be investigated and corrected each month. The Finance Director and Deputy Director have this duty and back each other up.

Monthly Bank Reconciliation - Use only if the Finance Office maintains any bank accounts outside the Trustee's Office.

- (6) 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. (If possible, get copies of cancelled checks, front and back, in your bank statements.)
- (7) Obtain the bank statement after it has been initialed and reviewed as directed in Step 6. Perform the bank reconciliation. This is done monthly.
- (8) A 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.

County Finance Director
Internal Control Checklist
Trade Accounts Receivable
Reconciliations

The Finance Office does not have active trade accounts. We collect misc. receipts only.

See Column Instructions Below

Trade Accounts Receivable (A/R) - All Funds

	Add:	Subtract:		The	The		**
Obtain Beginning Receivable Balance	Amounts Billed to Customers Current Month	Collections, Adjustments, Write-Offs	Ending Receivable Balance Equals Column 1+2-3	Balance from Column 4 should agree with the total of all Individual Accounts	Balance from Columns 4&5 should agree with the General Ledger	Locate and Explain any difference between Columns 4, 5, & 6	Prepare Necessary Correcting Journal or Other Entries
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

Seven-Person Office:

Finance Director
Deputy Director - Employee #1
AP/Admin - Employee #2
AP/Admin - Employee #3
Acct Payable - Employee #4
AP/Payroll - Employee # 5
Payroll - Employee # 6
Payroll Employee #7

XX	XX	XX	XX	XX	XX	XX	XX
X	X	X	X	X	X	X	X

Column Instructions:

XX	The Person indicated by the XX is the preferred person to perform the procedure.
**	See additional instructions for Journal Entries under the Journal Entries Tab.

Trade Accounts Receivable (examples are ambulance, landfill, and utility receivables)

- (1) Obtain the beginning balance of trade accounts receivable. This balance should exist in the accounting records. If a record of the beginning balance (i.e. accounts receivable control record) does not exist, this is an indicator that internal controls either do not exist or are not working.
- (2) This amount should be the total amount billed to customers during the current month.
- (3) This amount should be the total of all collections, adjustments, and write-offs that reduce the accounts receivable balance. **(Important: No accounts receivable balance should be written-off without a write-off policy and approval of the county commission or its designee.)**
- (4) The sum of columns 1+2-3 should equal ending accounts receivable. This is separated in three steps for illustration purposes. In an automated system, this is essentially one step with the system printing a report. However, the bookkeeper and **someone not associated with the accounts receivable records** should be reviewing the totals of billings, collections, and write-offs for reasonableness each month.
- (5) The accounts receivable records should have a summary (control record) and a detailed list of accounts receivable by individual customer. The summary (control record) accounts receivable total should agree with the total of all the individual customer receivable balances. This should be verified every month.
- (6) The summary (control record) and the individual customer balances total should agree with the general ledger accounts receivable balance. This should be verified every month.
- (7) Any difference between the accounts receivable balances on the control record, the detailed list and the general ledger should be investigated and corrected each month. Any consistent or significant differences should be reported directly to the finance director
- (8) Prepare the adjusting journal entries to correct the differences.

County Finance Director
Internal Control Checklist
Purchasing

See Column Instructions Below										
Purchasing										
Obtain Requisition From Department Heads For Encumbrance	Issue Detailed Purchase Order for which records Against Budgets	Approve the Purchase Order	Order Goods/Services Based on Approved Purchase Order	Receive Ordered Goods/Services	Sign Invoice or shipping Documents Indicating the Goods/Services Were Received	Match Shipping Documents, Purchase Order, and Prepare for Check Issuance	Print Checks attach to Invoice, Etc.	Sign & Approve Check for Payment	Process Payment check stubs, etc. Mail	Determine the Disposition of any Unused Purchase Orders
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)

Seven-Person Office:

Finance Director	X	X	XX	XX	X	X			XX		X
Deputy Director - Employee #1	XX (Schools)		X	X	X			X			X
AP/Admin - Employee #2		XX				XX	X	XX		X	
AP/Admin - Employee #3										XX	
Acct Payable - Employee #4		X				XX	X				XX
AP/Payroll - Employee # 5	XX (Co/Hwy)			XX	XX	X					
Payroll - Employee # 6											
Payroll Employee #7											

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.

Purchasing

- (1) The finance office obtains a requisition or obtains purchase information based on the current county purchasing policy. The name of the person making the request, the method of the request (e.g. by telephone) and the date is documented. The request is detailed. The brand, quantity, product order number, price and total purchase amount is documented. Requests for purchase orders that do not include complete information are not accepted. The request normally comes from a department head or the department head's designee. Departments don't generally have multiple employees who make requests for purchase orders except in few circumstances as designated by the elected official or department head.
- (2) Issue the purchase order for approval. A yellow copy of the purchase order goes to the department that ordered the goods/services. The original green document goes to finance accounts payable personnel to match with the supporting documentation for payment purposes, then attached to check. This data entry of the purchase orders automatically record against the individual budgets.
- (3) The finance director or designee determines whether bid laws and local purchasing policy have been followed and ensures the purchase order is completed in detail and ready for approval. The purchase order is approved by two signatures for county and highway and one signature for schools. The finance director and deputy director sign for approval, and then the county mayor, highway superintendent or chairman of the county commission or highway commission sign for approval. The school director has opted to sign the requisition only. The school purchase orders require only one signature; the finance director or deputy director.
- (4) Physically order the goods/services as listed on the purchase order. Sometimes this will be completed in the finance office, and sometimes this will be done by the department head or a specific department designee. Local vendors of goods/services are advised of the persons who are authorized to make purchases on behalf of the government. Local vendors are also advised that no goods or services can be purchased without an approved purchase order for items over \$25.
- (5) The finance office, the department head, or a specific department designee receives the order.
- (6) Once the goods have been shipped and received or the service rendered, the finance office, the department head, or a specific designee checks the order and signs/dates the purchase order, the invoice, or the shipping documentation indicating that the goods/services have been received as ordered. The documents then go to finance accounts payable personnel.
- (7) Once the goods have been shipped and received or the service performed, the Finance Office accounts payable personnel receives the shipping documents, invoices and then matches e Purchase Requisition, Purchase Order, Shipping Documents, Invoice, etc. and prepares the invoices for payment. This will be the documentation used to approve the checks.
- (8) A different accounts payable clerk then selects the previous accounts payable clerks items that are ready for check issuance, prints the corresponding check and attaches it together for signature & approval.
- (9) The finance director or deputy director approve the check for payment. All non-payroll checks require two signatures for approval. The county mayor, highway superintendent and director of schools sign for the funds for which they are responsible. If they are not available, the chairman from each of their boards is the second approving signature.
- (10) A third admin/accounts payable clerk processes the payments and mails the checks.
- (11) Purchase orders are reviewed and maintained on a monthly basis by an accounts payable clerk to determine if the services/goods have been cancelled or postponed. A determination is made as to whether the outstanding purchase orders should be liquidated or amended. The finance director and deputy finance director review the outstanding purchase orders as well in maintaining the budgets, amendments and reports to the department heads and commission/boards.

County Finance Director
Internal Control Checklist
Grants

See Column Instructions Below					
Grant Performance and Documentation					
Obtain Co. Commission's Approval to Apply for the Grant	Read the Grant Contract. Also Obtain and Read OMB's Uniform Grant Guidance	Maintain Central Grant Documentation Files	Maintain Separate General Ledger Revenue and Expenditure Accounts for Each Grant	Mark or Tag Grant Equipment and make an Inventory listing by Grant	Physically Observe the Equipment on the Inventory Listing
(1)	(2)	(3)	(4)	(5)	(6)

Seven-Person Office:

Finance Director	XX	XX	XX	XX	XX	XX
Deputy Director - Employee #1	X	X	X	X	X	X
AP/Admin - Employee #2						
AP/Admin - Employee #3						
Acct Payable - Employee #4						
AP/Payroll - Employee # 5						
Payroll - Employee # 6						
Payroll Employee #7						

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.

Grants Performance and Documentation

- (1) The finance director or deputy director works with all county personnel to ensure the grant procedures are followed as approved in the county policy. The finance committee will receive a pre-grant application form or application/approving resolution for federal, state, or other grants. The finance committee approves and sends the application to the county commission for approval. When it is approved, the grant is included in the county, highway or school budget as appropriate. The authorized persons to sign a grant on behalf of Sample County are as follows: the county mayor, the highway superintendent, and the director of schools. The grant pre-application form is a summary form showing the particulars of the grant.
- (2) The most recent version of the U.S. Office of Management and Budget's uniform administrative requirements, cost principles and audit requirements for federal awards are on file at the finance office and available by internet at any time. This document is downloaded from the Internet and on file. The finance director is responsible for knowing the contents of the OMB document and the grant contract and seeks any clarification from federal, state or other grant program management personnel.
- (3) All grant documents related to Sample County government, highway and schools, regardless of the department that applies for and receives a grant, are maintained in a central file in the finance office. Each grant is kept in a separate file by fiscal year. The file contains the grant application, grant reports, budget and budget amendments, correspondence from the State of Tennessee and the federal agency, monitoring reports, information specific to the grant (such as CFDA Number and Exact Grant Title, DUNS Number and Exact Entity Title for the DUNS Number), key dates, total amount of federal award, federal and state award agencies, and indirect cost calculations if applicable, etc. The required documentation is presented throughout OMB's uniform guidance as mentioned in (1) above. Internal control and procurement policies are on file in the finance office.
- (4) Revenues and expenditures for each federal or state grant are maintained in separate revenue or expenditure accounts or are cost centered so that each grant can be easily recognized and accounted for in the county's accounting records. The finance director is responsible for maintaining the county and highway grants, whereas the deputy finance director maintains the school grants. Both positions are a backup for each other.
- (5) Equipment purchased with federal and state grants is permanently marked or tagged as equipment purchased with specific grant funds. An inventory listing is made of equipment purchased with grants funds. Equipment is listed separately for each state or federal grant. Equipment on the inventory listing is physically inspected on a periodic basis by someone not associated with preparing and maintaining the inventory list. The department responsible for the equipment has the responsibility of marking the equipment and annually submits an inventory list to the county mayor's office for audit purposes. County, insurance policy & inventory policies are regarded by the responsible department head. The fixed assets are maintained by the finance director and deputy finance director.
- (6) The equipment is physically observed by the responsible parties of each department on an annual basis. The inventory list is maintained and is updated with the finance office for insurance and fixed asset maintenance.

County Finance Director
Internal Control Checklist
Budget

See Column Instructions Below

Budget Operations			
Prepare the Annual Budget for County Commission Approval	Review the Budget Monthly	Prepare Budget Amendments and Post to Accounting Records	Major Appropriation Category Budgets should not be Exceeded.
(1)	(2)	(3)	(4)

Seven-Person Office:

Finance Director	XX	XX	XX	XX
Deputy Director - Employee #1	X	X	X	X
AP/Admin - Employee #2				
AP/Admin - Employee #3				
Acct Payable - Employee #4				
AP/Payroll - Employee # 5				
Payroll - Employee # 6				
Payroll Employee #7				

Column Instructions:

☐ XX The Person indicated by the XX is the preferred person to perform the procedure.

Budgeting

- (1) Sample County operates under the Financial Act of 1981. In November of each year, the finance committee approves a budget calendar for the new fiscal year budget cycle. By March 1st of each year, the finance committee reviews and approves the budget packet template distributed to the county and highway departments. The school departments have their own budget calendar that coincides with the main calendar. The finance director receives the county general budget request annually by mid April. The school and highway budgets are a combined effort of the finance office staff, the director of schools, school board and highway superintendent, and highway commission. Generally, the school board and the highway commission have an approved budget by mid May each year and are then added to the other fund budgets. The budget is then consolidated by the finance director and presented to the finance committee in mid May. In June, the finance committee reviews all pertinent information in regard to the budget as per TCA. The goal is have an approved consolidated budget with tax rate recommendation to send to the July county commission meeting. This process is described in TCA 5-21-110 & 5-21-111.
- (2) The budgets are reviewed on a monthly basis by the finance director (county & highway) and the deputy finance irector (schools). Monthly reports are distributed to the departments, including but not limited to the statement of revenue, statement of expenditures, account analysis, outstanding purchase order report and cost center reports, if applicable. The finance director submits a monthly report to the county commission in the form described in TCA 5-21-114.
- (3) Inter-category amendments can be approved by the finance director and the county mayor in regard to the county funds, the finance director and the highway superintendent for highway funds and the finance director and the director of schools for the school funds. This is a procedure used when funds are not added to a category, but an allocation is decreased to increase another allocation when funds are needed for procurement.
- (4) Amendments that are needed to decrease/increase revenues and expenditure categories are prepared by the finance director (county & highway) and the deputy finance director (schools). The highway commission and school board approve these amendments prior to presenting them to the finance committee. The finance committee then approves and sends the amendments to the next county commission meeting for approval. When the commission approves the amendments, they are then entered and posted by the finance director and deputy finance director.

County Finance Director
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:

Finance Director	XX	XX		XX
Deputy Director - Employee #1	X	X		X
AP/Admin - Employee #2			X	
AP/Admin - Employee #3				
Acct Payable - Employee #4			XX	
AP/Payroll - Employee # 5				
Payroll - Employee # 6				
Payroll Employee #7				

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.

Entering Journal Entries

(1) Finance staff may bring corrections to the attention of the Director and Deputy Director that need to be made, or the director may find the errors in the monthly budget reviews. A standard journal entry form is utilized. The form records debits and credits and explains the transaction in detail for each journal entry. Documentation is attached as necessary.

(2) The finance director approves all journal entries. The deputy director is the designee in the director's absence.

(3) Accounts payable and administrative personnel are utilized to perform the data entry.

(4) Prior to posting the journal entries, the director of finance & the deputy director review the pre-

County Finance Director
Internal Control Checklist
Payroll & Employee Maintenance

See Column Instructions Below

Maintaining Employee Payroll Records

Obtain Payroll Change Notice from Department Heads	Approve or Determine that Funds are Budgeted for New Hire or Changes for Employees	Process Data Entry for Employee Changes in Payroll Software	Check Data Entry for Employee Changes/Additions in payroll software
(1)	(2)	(3)	(4)

Seven-Person Office:

Finance Director	X	XX		X
Deputy Director - Employee #1		X		
AP/Admin - Employee #2				
AP/Admin - Employee #3				
Acct Payable - Employee #4				
AP/Payroll - Employee # 5	XX		X	XX
Payroll - Employee # 6			XX	
Payroll Employee #7			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 Payroll Change Notices from Department Head/Elected Officials.

(2) Check employee database and current fiscal year budget for availability of funds for the changes being requested in regard to payroll/staff.

(3) Perform New Hire Orientation, and/or process the approved changes in the Payroll Software. These changes include: additions of new employees, pay expense lines, pay adjustment lines and leave balances.

(4) Check data entry for Employee additions or changes in the payroll software to assure accuracy.

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