

Internal Controls

for

County Recorders

2019 District Recorder's Meetings

Definition of “Internal Controls”

State Board of Accounts (SBOA) defines internal control as follows:

- Internal control is a process executed by officials and employees that is designed to provide reasonable assurance that the objectives of the political subdivision will be achieved;
- It is a basic element fundamental to the organization, rather than a list of added on tasks;
- It is an adaptable process that is a means to an end, not an end in itself;
- It is focused on the achievement of objectives; and
- It is dependent on officials and employees for effective implementation.

Five Components of Internal Control

Each of these five components of internal control is necessary to form a complete internal control process.

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring Activities.

If any of the five components is missing, true internal control is not achieved. Additionally, each component is comprised of recognized principle elements. To have a complete component, the principles associated with each component should be present.

Internal Control Suggestions

The following slides are suggestions that are based on the work flow and procedures in Hamilton County.

Each County needs to decide what will work best for your office.

Creating Internal Controls

- Creating Internal Controls can be an intimidating process. Internal Controls can encompass many different aspects.
- For County Recorders, one of the first things that comes to mind when we hear “Internal Controls” is the financial aspect but we need to consider the other areas that make up internal controls.
- Some examples might be:

Timely Reconcilements

Payroll

Purchasing

Accounts Receivable

Invoicing or Billing of Copy Accounts

Accounting Records & Reports

Petty Cash / Change funds

Equipment and Supply inventories

Pre-pay Accounts

Handling & Preparing Daily Deposits

- If possible, use a rotating schedule to assign employees a specific date to prepare daily deposit.
- Every employee that handles money is assigned their own cash drawer.
- At the end of the business day, each employee is responsible to balance their own drawer and then give it to someone else for verification.
- After verification is done, the employee will run the appropriate financial reports for the day and verify that that the totals match.
- Give the deposit to a supervisor (Recorder; Chief Deputy or another trusted employee) to verify deposit has been prepared correctly.

Handling & Preparing Daily Deposits – cont..

- Upon verification of the daily deposit slip by the appropriate employee, the deposit is then given to the Recorder or Chief Deputy who verifies it. If the deposit is not made until the following morning, the deposit bag should be kept or locked in a safe location.
- When taking the deposit to the bank, you may wish have an escort from the Sheriff's Office.
- Be sure to obtain a receipt from the bank after the deposit has been made.
Staple the receipt to a copy of the deposit slip and save for SBOA audit.

End of Month Process

- Within **10 days** of the end of the month, all money collected from Recording fees and copy fees should be turned over to the Treasurer and copies of the Report of Collections is sent to the Auditor's office for quietus into the proper line items. (There are a few counties that deposit their funds to the Treasurer on a daily basis instead.)
- In Hamilton County, the Auditor's office requires that a pdf copy of the Recorder's check and the Report of Collections be emailed directly to their department for verification. (This is not required by all Auditors.)
- Upon their approval, the Recorder is to take the actual check and the Report of Collections to the County Treasurer for deposit. Once this has been done, the Treasurer will return copies of the quietus to the Recorder to keep on file for audit purposes.

Verifying Financial Reports & Reconciliation

- Your vendor will most likely have a procedure or other ways to reconcile the fees you collected to your computer system. Your computer system should have been approved by the State Board of Accounts when you signed on with your vendor.
- This essentially means that we verify that the amount listed in the software matches the total that was deposited at our bank. This process allows us to reconcile our funds with the bank at the end of each month.
- It is probably a good idea to rotate this process between the Recorder; Chief Deputy and/or another trusted employee if possible.

End of Month Balancing Process

- The end of month procedure includes reconciliation with the bank statement and the Computer software. *The Recorder or the Chief Deputy Recorder are assigned this task in Hamilton County.*
- It may be a good policy to have the Recorder; Chief Deputy and/or other another trusted employee alternate the end of month procedure each month. This will help to ensure that there is accountability and less chance of having fraud occur.
- Hamilton County uses an Excel template that was created by the State Board of Accounts to assist us when we reconcile our funds with the bank. This ensures we are balancing properly each month.

Claims

- Claims could be processed by the Recorder or the Chief Deputy. One can process the claim and the other can proof them before submitting to the Auditor's office. This is a good "accountability" practice.
- The accounts payable department of the Auditor's office should also verify that the correct amount is being paid and that the funds are coming from the correct line item or account.

Purchasing

- If you do not have a central purchasing department in your county, you may want to consider sharing the duties of purchasing supplies with your Chief Deputy or another employee. This may eliminate unnecessary or duplicate items from being purchased.
- It may be helpful to create an inventory list and keep it current so that you are not duplicating purchases. This will help to monitor your supplies to determine if they “go missing”.
- Having an inventory list will also remind you to re-order items when needed.

Copy & Pre-pay Accounts

- Some counties permit copy accounts that allows their customers to make copies and remit payment later.
- Some counties only allow pre-payment accounts, where money is deposited into an account and the copy fees are withdrawn by authorized user as they make copies.
- Copy and/or Pre-pay accounts should be secured by user names and passwords.
- Statements or invoices should be generated on a regular basis and sent to each copy or pre-pay account holder. (i.e.: monthly or quarterly works best)
- The statement should include an itemized list of copies made within the given month as well as the remaining balance.

At Risk Employees

- Identify employees that may be having financial trouble or ones that may have a grudge against your or another employee. Make sure that employee does not have access to things like cash drawers; petty cash or change funds; access to your safe or any other secure locations that may hold your deposits.
- Monitor employees that may be clocking in early or out late to comp time that has not been approved. This is another area where employees can steal from the county.
- Any misappropriations by an employee in your office must be reported to the SBOA immediately. You may also need to report misappropriations to the Auditor; Commissioners; County Attorney; Human Resources and/or the County Prosecutor depending on your county policy.