

# ROCKWALL COUNTY

## Internal Control Policy

All County employees play a part in Rockwall County's internal control system. Ultimately, it is the responsibility of Rockwall County's management to ensure that controls are in place to safeguard its resources, assure accuracy and reliability of information and proper reporting of that information. That responsibility is delegated to each area of operation in the County so that every employee has some responsibility for ensuring that the internal control system is functioning. Therefore, all Rockwall County employees need to be aware of the concept and purpose of internal controls.

### **PURPOSE**

The purpose of this administrative procedure is to define what constitutes the internal controls, and to outline rules and procedures that all employees must follow when internal controls are not in place or not followed.

### **SCOPE**

This procedure applies to all Rockwall County employees.

### **DEFINITIONS**

1. *Internal Controls* - Refers to a system of financial checks and balances designed to provide assurance that money and/or other assets are not lost or misappropriated and the number of mistakes are reduced.
2. *Preventive Controls* – Refers to the controls that are designed to discourage errors or irregularities from occurring.
3. *Detective Controls* – Refers to the controls that are designed to find errors or irregularities after they have occurred.
4. *Fraud* – Theft, intentional waste or abuse of County funds, property, records or time.

5. *County Funds* – Currency, checks, or other negotiable instruments belonging to the County of Rockwall, or for which the County is the fiscal agent.
6. *County Property* – Any tangible item owned by the County of Rockwall.
7. *County Employee* – This is a global term encompassing all individuals elected, appointed, hired or representing themselves to be working to the benefit and good of the County of Rockwall.
8. *Avoidance of Established Internal Controls* – When a county employee circumvents, ignores or misapplies departmental or county established internal, preventive and/or detective controls.
9. *Retaliation* – When an individual is discriminated against or penalized for reporting internal controls non-compliance or fraud, or for cooperating, giving testimony, or participating in any manner in an audit/investigation, proceeding or hearing.
10. *Negligence* – The failure to exercise the standard of care that a reasonably prudent person would have exercised in a similar situation; lack of due diligence or care; omission of proper attention to a person or thing; habitual neglect; heedlessness; carelessness.
  - a. A county employee's lack of prudent care and/or inattention to one's duty or responsibility to manage and protect county funds collected in the performance of official duties from loss or misapplication until deposited into the County Treasury.
  - b. The lack of prudent care and/or inattention to one's duty or responsibility to manage and protect county property/assets from loss or damage.
  - c. A county employee's failure to follow, intentionally circumvent, or failure to provide sufficient administrative control as stipulated in Rockwall County's internal control policy.
  - d. A county employee's failure to report or attempt to conceal

actions intended to circumvent, ignore or disregard the internal control policy, in regards to their own or another's culpability

## **BACKGROUND**

1. Internal Controls are an integral part of the duties and functions of each department or office in the County and should be incorporated into the operational procedures and policies of each department or office to ensure resources are safeguarded, reports are reliable, policies and procedures are followed, and operations are conducted economically and effectively.
2. Key elements of Internal Control:
  - a. Organizational Controls require adequate checks and balances to separate authorizing and performing a task from reporting responsibility.
  - b. Procedure Controls divide tasks to provide internal checks by specifying the work and responsibility of each employee.
  - c. Recording Controls maintain necessity for prompt, complete and accurate recording by every employee who prepares, approves, processes or summarizes any record.
  - d. Reporting Controls must be usable and must present an accurate picture of what has occurred in a timely, complete, concise and accurate manner.
  - e. Analysis/Oversight Controls provide independent review and risk analysis of organization, procedures, recording and reporting.
3. Limitations of internal controls:
  - a. Subject to human error due to mistaken judgment, carelessness, misunderstanding or fraud.
  - b. Poorly written or poorly enforced internal controls allow fraud to

occur.

- c. Implementation of sound internal control system and strong management practices can reduce weaknesses, but not eliminate them entirely.
  - d. The system should be reviewed periodically and revised when necessary to keep pace with changes in office policies, duties and personnel, in an attempt to prevent complacency and complicity.
  - e. Cost of controls exceeds potential benefit.
4. The County is committed to accurate, complete and honest financial reporting in all aspects of County business. The County is required to develop and maintain accounting systems that enable and support the preparation of accurate financial statements in accordance with statutes, applicable law, rules and accounting principles.
  5. This policy is not intended to be a detailed study of every procedure or activity that constitute internal controls. Accordingly, the information presented in this policy should not be considered as all-inclusive of what might constitute internal controls.
  6. Local Government Code §157.903, - Authority to Indemnify Elected and Appointed County Officers “The commissioners court of a county by order may provide for the indemnification of an elected or appointed county officer against personal liability for the loss of county funds, or loss of or damage to personal property, incurred by the officer in the performance of official duties if the loss was not the result of the officer's negligence or criminal action.”
  7. Role of internal audit:
    - a. Internal auditing is an independent appraisal function established to examine and evaluate the adequacy and effectiveness of the organization's internal control system and its overall quality of performance.
    - b. Internal auditing furnishes Rockwall County management with analyses, appraisals, recommendations, counsel, and information

concerning the activities reviewed.

- c. Internal auditing reviews the reliability and integrity of information, compliance with statutes, policies and regulations, the safeguarding of assets, the economical and efficient use of resources, and established operational goals and objectives.
- d. Internal audits may encompass all financial activities and operations within the County of Rockwall.

### **INTERNAL CONTROL**

1. No employee shall, directly or indirectly, knowingly falsify, cause or allow to be falsified any book, record or account of the County. This includes expenditures, travel records, time sheets, the approval of vendor invoices, case transaction records, or any other business/financial record of the County.
2. No entries should be made that intentionally conceal the true nature of any transaction or record of the County.
3. No funds or accounts should be kept for purposes not fully and accurately disclosed. Unrecorded or "off the books" funds or assets may not be kept for any purpose.
4. All County employees must protect County assets and ensure their efficient use. The County will not tolerate theft, misuse or waste of County assets. All County assets should be used strictly for legitimate County business purposes.
5. Applicable Internal Control descriptions with examples.  
(Note: The following examples are not intended to cover all possible procedures or activities that constitute internal controls. Each department or office should design, implement, monitor and adjust internal control objectives for each activity or procedure as applicable. The County Auditor's office would welcome any request for help establishing, changing or evaluating internal controls by a department or office.)

A. Adherence to all organizational procedures

1. Separation of duties:

a. No one employee is functionally responsible for a financial or other business transaction from start to finish.

2. A departmental approved written office policy establishing employee duties, authorization levels, internal controls, etc., on file in every department or office.

a. Describe each employee's duties and responsibilities and examples of those same duties and responsibilities.

b. Establish each employee's scope of authority and the transactions that conform to that authorization.

c. Reference or document internal control procedures for the office or department.

d. Establish and describe restrictive access to monies, safe and other sensitive areas.

3. Competent management and employees:

a. Competent by education, experience and/or training to accomplish their assigned duties.

4. Documents on file with appropriate county office:

a. Conflict of interest statements are completed and enforced.

b. Oaths of office completed and filed.

c. Education documentation maintained for audit.

d. Bonding of cash handling personnel (when necessary).

5. Rotation of duties and/or personnel in positions more susceptible to fraud.

6. Overages/Shortages:

a. Overages deposited with deposit to Treasury.

b. Shortages made up immediately pursuant to the Elected Official or Department Head's office procedures.

B. Adherence to Procedure Controls:

1. Issuing or receiving assets

a. Checks stamped "For Deposit Only" immediately.

b. Receipt written for every financial transaction.

c. Assets may not be issued or received without proper documentation and approvals.

d. Payment requests documented with backup.

e. Change funds reconciled daily.

2. Timely and accurate deposits of all receipts to Treasury.

3. Secure funds in safe (when available) when held overnight.

4. Balance receipts for each cash drawer at the end of the day or shift.

5. Restricting access to office, documents, equipment and personnel.

6. Ensuring that employees take regular vacations.

7. Follow established and documented internal controls as detailed in office policy.

### C. Adherence to Recording Controls

1. Transactions are recorded as executed, when executed, and properly classified.
2. Every transaction is documented properly and timely with a receipt, docket sheet or case file entry, P.O., or other county approved documentation.
  - a. Clear documentation of cash receipts from the time of collection to the time of deposit.
3. Files maintained accurately and up-to-date, with timely recording of facts.
4. Only approved and official Rockwall County receipts used for County business.
  - a. Rockwall County logo, (if possible);
  - b. Unique tracking numbers;
  - c. Multiple copies;
  - d. Date of issuance;
  - e. Amount paid and what form of payment;
  - f. Subject of document;
  - g. Initiator of document;
  - h. Payee information..

### D. Adherence to Reporting Controls:

1. Maintain good accounting control over assets, liabilities, revenues and expenses.

a. Monthly reconciliation of bank statements; reconcile with checkbook register and ledger/report.

b. Asset movement, authorization and reconciliation.

2. Documentation easily available to meet audit requirements, detail internal control objectives and procedures, asset accountability, all transactions and/or any other business activities performed in the department or office.

E. Adherence to Analysis/Oversight Controls:

1. Independent reviews and monitoring of tasks.

2. The Elected Official or Department Head reviews reports, reconciliations, receipts and disbursements.

3. Regular independent audits of areas susceptible to fraud.

a. Recount and verification of daily receipts.

b. Authorization level of document signer.

c. Vendor information.

4. Evaluate audit findings and recommendations.

5. Determine proper actions and response to audit findings and recommendations.

6. Complete all actions that correct or otherwise resolve the audit findings within established time frames.

## **RESPONSIBILITIES**

1. Any employee who has knowledge of an avoidance of established internal controls shall immediately notify his/her supervisor. If the employee has reason to believe that the employee's supervisor may be

involved, the employee shall immediately notify the Elected Official or Department Head of his/her department. However, if the employee has reason to suspect that the Elected Official or Department Head may also be involved, the employee should contact the County Auditor. Failure to report the avoidance of established internal controls will be considered negligence and could result in disciplinary action or possibly termination.

2. Any employee who has knowledge of the lack of established internal controls shall immediately notify his/her supervisor. If, after notifying his/her supervisor, the employee finds that the employee's supervisor has not followed through on the notification, the employee shall immediately notify the Elected Official or Department Head of his/her department. If the employee finds that the Elected Official or Department Head has not followed through on the notification, the employee should contact the County Auditor. Failure to report the lack of established internal controls will be considered negligence and could result in disciplinary action.
3. An Elected Official or Department Head shall not attempt to investigate the suspected avoidance of internal controls.
4. Upon notification from an employee or supervisor of the lack of internal controls, or if the Elected Official or Department Head has reason to believe there is a lack of internal controls, the Elected Official or Department Head, should and may correct the lack of internal controls, updating the office policy to reflect the change and notifying the Auditor's Office of the changes. When notification comes from an employee or supervisor, the Elected Official or Department Head will respond to the employee or supervisor within a reasonable period of time of any action taken regarding the notification. The Auditor's Office should be contacted for help in establishing, changing or evaluating internal controls as necessary.
5. Upon discovery or notification of the lack of internal control, or a request for help establishing, changing or evaluating internal controls by a department, the County Auditor will contact the department to provide assistance.

6. Report suspected criminal activity to County Sheriff, as soon as possible.

## **PROCEDURES**

### 1. Confidentiality:

- a. All participants in any investigation shall keep the details and results of the investigation confidential except as expressly provided in this administrative procedure. However, the County Sheriff may discuss the investigation with any person if such discussion would further the investigation.

### 2. Personnel Actions:

- a. If a suspicion is substantiated by the investigation, disciplinary actions shall be taken in conformance with the County's Personnel Policies and Procedures. A false or vindictive allegation of avoidance of internal controls or fraud is a violation of this administrative procedure. All violations of this administrative procedure, including violations of the confidentiality provisions, could result in disciplinary actions up to and including termination.

### 3. Retaliation:

- a. It is a violation of this administrative procedure for any individual to be discriminated against for reporting fraud or for cooperating, giving testimony, or participating in an audit/criminal investigation, proceeding or hearing. Such individuals fall under the protection of the Whistle Blower Act.

### 4. Media Issues:

- a. If the media becomes aware of a criminal investigation, the Elected Official or Department Head shall refer the media to the County Sheriff. The alleged actions and investigation shall not be discussed with the media other than through the County Sheriff.