Examples Overview

Internal controls must be continually evaluated and developed to meet agency needs. The following examples are intended to generate ideas for the design of an internal control system and illustrate the use of certain tools provided. Because state and quasi agencies vary in size and complexity, no single method or set of internal control policies and procedure universally applies.

Objectives, Risks, and Controls

This document provides examples of objectives, risks, and key controls for the control environment and major transaction areas. Lists are not intended to be exhaustive or applicable to all agencies. The control environment and major transaction areas contain some or all the following examples categories:

- Example Objectives and Risks
- Minimum Internal Control Standards per the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies
- Example Key Controls

Examples include the following areas:

- Control Environment
- Financial Reporting
- Budget Reporting
- Cash Receipts
- Accounts Receivable
- Purchasing / Accounts Payable
- Human Resources
- Inventory
- Capital Assets
- Information Technology

Risk Assessment Template – Example Tab

This risk assessment template displays an example entry for one aspect of safeguarding cash collections. The template is for illustration purposes only; it is not a complete analysis of all risks to the cash collection process.

Control Development Template – Example Tab

This control development template shows example entries for controls related to the cash receipts process. This is not intended to be a complete list of controls. The example template is for illustration purposes only; it is not a complete analysis of all risks and controls for the cash collection process.

Control Environment

Example Objectives and Risks

Example Objectives		Example Risks
Management recognizes the importance of and commitment to the establishment and maintenance of a strong system of internal control as communicated to all employees through actions and words. Management adheres to a code of conduct and other policies regarding acceptable business practices, conflicts of interest, or expected standards of ethical and moral behavior, and communicates these policies to all employees.		• Employees lack knowledge of internal controls. • Code of conduct and/or ethics policy has been inadequately communicated (i.e., intranet, posters, memorandum, etc.) or does not exist.
Organizational structure units are clearly defined and up to date to perform the necessary functions and determine that appropriate reporting relationships have been established.		• Organizational chart is not current. • Employees unaware of reporting relationship in the organizational structure. • Duplication of functions by units.
Personnel are qualified and properly trained for the functions in order for control procedures to operate in the manner intended. Current job descriptions are established detailing the responsibilities and qualifications for each position.		• Personnel not qualified to perform tasks assigned. • Personnel not adequately trained. • Lack of continuing education for personnel. • Job descriptions not coordinated with actual job performances.

Control Environment

Example Objectives and Risks
(Continued)

Example Objectives		Example Risks
Delegation of authority or limitation of authority exists to provide assurances that responsibilities are effectively discharged.		• One employee controls all phases of a transaction. • Management goals are not communicated to staff employees.
Policies and procedures are documented and provide a basis for reviews, follow-up evaluations and audits.		• Functions are not performed uniformly. • Statutory requirements not being met. • Lack of support for functions and transactions performed.
Budgetary and reporting practices provide benchmarks by which management can measure accomplishments.		• Management does not have guidelines to measure performance. • Management cannot communicate expectations to the departments. • Unusual transactions or events cannot be detected. • Management cannot determine if goals are being achieved.
Organizational checks and balances provide authority for certain functions that minimize the potential for waste, fraud, abuse, or mismanagement.		• Departments do not perform responsibilities; therefore, the potential for waste, fraud and abuse can occur.

Financial Reporting

Example Objectives and Risks

Example Objectives		Example Risks
All transactions are properly accumulated, classified, and summarized in the accounts.		• General ledger not in balance. • Subsidiary ledgers not in balance with general ledger. • Inconsistent application of accounting policies and procedures.
All closing entries are initiated by authorized personnel and reviewed and approved in accordance with established policies and procedures.		• Inadequate closing procedures may result in confusion of responsibility, delay in completing the closing. • Transactions improperly included or excluded as a result of inadequate cutoff procedures. • Unauthorized or inappropriate journal entries. • Inadequate support for journal entries.
All necessary data is obtained and processed in accordance with established policies and procedures.		• Absence of adequate procedures may result in misclassification of balances, omission of an accounting unit, unacceptable delays, and excessive work. • Omission of information which should be provided in financial reports, lack of control over data submitted and review process.
All internal and public financial reports are prepared on the basis of appropriate supporting data, provide required information, and are reviewed and approved before issuance.		• Financial reports not supported by underlying accounting records. • Inconsistent presentation of financial data. • Incomplete review of data, permitting possible errors or omissions.

Financial Reporting

Example Key Controls

Reconciliations of subsidiary ledgers to control accounts are prepared and reviewed by someone other than the preparer.

Journal entries are prepared and reviewed by someone other than the preparer.

Financial statements and note disclosures agree to underlying supporting documentation.

Financial statement information and note disclosures are reviewed and approved by knowledgeable staff.

Management identifies accounts, such as accounts involving complex calculations or accounting estimates that are especially at risk of misstatement and develops policies and procedures to address those risks timely.

Budget Reporting

Example Objectives and Risks

Example Objectives		Example Risks
Preparation of a budget, whether or not legally required, which internally and externally communicates goals and objectives and serves as a "benchmark" against which actual performance is measured.		• No practical means by which to measure performance. • Internal departments and staff unsure of goals of the executive. • Absence of effective control over expenditures.
Obtain assurance that expenditures are incurred in conformity with the budget and plan of operations.		• Violation of law. • Expenditures incurred in excess of budget authorization. • Arbitrary or unauthorized transfers between budget categories.
Budget versus actual reporting is provided on a timely basis and explanations are provided for significant deviations.		• Lack of timely information on budget versus actual status prohibits corrective action. • Department managers unaware of status of their budget and potentially prohibited from executing plans. • Unbudgeted actual transactions may not be detected.

Budget Reporting

Example Key Controls

Actual expenditures and revenues are compared to budgeted amounts monthly and on a timely basis.

Budget revisions are approved by an authorized person before being entered into the accounting system.

Expenditures or under-realized revenues are discussed with departmental personnel; significant variations from budgeted amounts are explained.

Cash Receipts

Example Objectives and Risks

Example Objectives		Example Risks
All collections are properly identified, control totals developed, and collections promptly deposited intact.		• Failure to record cash receipts. • Withholding or delaying the recording of cash receipts. • Incorrect recording in the accounting system.
All bank accounts and cash on hand are subject to effective custodial accountability procedures and physical safeguards.		• Misappropriated cash or petty cash funds; diverted cash receipts; unauthorized cash disbursements; loss of funds.
All transactions are promptly and accurately recorded in adequate detail and appropriate reports are issued.		• Concealing unauthorized transactions or misappropriated collections by substituting unsupported credits or fictitious expenditures. • Under or overestimating cash or receivables.
All transactions are properly accumulated, correctly classified, and summarized in the general ledger; balances are properly and timely reconciled with bank statement balances.		• Misstating cash balances • Concealing unauthorized transactions by falsifying bank reconciliations.

Cash Receipts

Minimum Internal Controls per the Accounting and Uniform
Compliance Guidelines Manual for State and Quasi Agencies
Chapter 4 – Accounting for Revenue

Mail possibly containing checks, money orders, or cash should be opened by two people.

Money received should be recorded at time of receipt.

Checks should also be restrictively endorsed, and date stamped upon receipt. This should occur upon opening the mail or otherwise receiving the instrument (check).

A complete listing of collections received should be made by a person independent of the duties of processing the receipts or making deposits. Editing of the listing should be restricted to initial recorder and the reconciler.

All receipts, licenses, or other accountable items must be pre-numbered or sequentially numbered by computer when issued.

Documents should be used in sequential order. If the volume warrants, a separate numeric series should be used for different revenue sources.

Licenses, permits, goods for sale, invoices, etc., are considered accountable items for which a corresponding deposit must be made.

Receipts should be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment.

Licenses, permits, and other accountable items should be issued timely.

Collections must be deposited intact. Deposits are to be made within the next business day in compliance with IC 5-13-6-1.

Safeguard the collections through locked drawers, cabinets, or safes, particularly during breaks, lunchtime, and overnight.

Cash, receipts, books, licenses, etc., should be inaccessible to unauthorized persons.

Collections and other accountable items should reconcile to the bank statements and the agency's cash book. There is no authority for an agency to maintain an "over" or "short" fund.

The duties of collecting monies, processing the receipt, license, permit, etc., preparing and making deposits, and performing reconciliations should be segregated to the fullest extent possible considering the size of the agency and the materiality of collections.

Supporting documentation for monies received must be maintained and made available for audit to provide supporting information for the validity and accountability of monies received.

Documents must be filed in such a manner as to be readily accessible, or otherwise reasonably attainable, upon request during an audit.

Cash Receipts

Example Key Controls

Duties are segregated so that the following responsibilities performed by different people:

- Custody of the funds, reconciliation of the funds and access to cash receipts.
- Completing the disbursement receipts, disbursement, and reconciliation.
- Making a deposit, billing, making General Ledger entries and collecting.
- Collecting cash, balancing cash, closing cash registers, making a deposit, maintaining Accounts Receivable records, and making General Ledger entries.
- Collecting of licenses, fines, and inspections (etc.) and making General Ledger entries.
- Collecting cash and reconciling the bank account.
- Reconciling Cash registers daily by a person not involved in cash receipting.
- Preparing the deposit and verifying the validated bank deposit slip.
- Preparing and approving bank account reconciliations and investigation of unusual reconciling items are segregated from other cash receipts or disbursement functions.
- Cash receipts are reconciled (cash, checks, credit cards, wires) on a daily basis to the total dollar value sold. (For example, total dollar amount reconciled to number of licenses issued.)
- Management reviews and approves bank reconciliations on a monthly basis.
- Timely corrective actions are taken in cash discrepancies.

Accounts Receivable

Example Objectives and Risks

Example Objectives		Example Risks
Ensure that appropriate records are maintained for all businesses, users of government services, and individuals or entities against who taxes or fees are assessed.		• Government loss of revenue as a result of billing errors. • Eligible parties who have failed to file tax or other informational returns not identified. • Systems may permit unauthorized removal of taxpayers or others from rolls. • Employees' diversion of revenue for personal use.
Billing of taxes and services is performed promptly and in proper amounts; self-assessed taxpayers monitored; exemptions are only provided to those authorized.		• Billings inaccurately or incompletely prepared resulting in excess/loss of revenue and inaccurate accounting. • Sales, income, and other self-assessed taxpayers may pay amounts less than required by law. • Revenue lost due to inadequate procedures or improper accounts. • Policies and procedures insufficient to collect amounts in a timely manner.
All collections are properly identified, control totals developed, and collections promptly deposited intact and applied to the proper accounts.		• Withholding or delaying the recording of cash receipts and application of funds to the proper accounts. • Employee diversion of receipts for personal use. • Failure to receive proper distribution of taxes collected by another level of government. • Amounts improperly written-off and collections diverted to personal use.

Accounts Receivable

Example Objectives and Risks
(Continued)

Example Objectives		Example Risks
Billings, adjustments, and collections are properly recorded in individual receivable accounts.		• Account balances reduced by unauthorized transactions. • Cash flow from payments delayed by late billings or deposits.
Revenues, collections, and receivables are properly accumulated, classified, and summarized in the accounts.		• Errors in transaction postings to detail or control accounts not detected in a timely manner. • Problem accounts do not receive prompt attention, resulting in revenue or cash-flow loss. • Improper revenue receivables accounting policies and practices result in misstatement of account balances.

Accounts Receivable

Minimum Internal Controls per the Accounting and Uniform
Compliance Guidelines Manual for State and Quasi Agencies
Chapter 4 – Accounting for Revenue

Mail possibly containing checks, money orders, or cash should be opened by two people.

Money received should be recorded at time of receipt.

Checks should also be restrictively endorsed, and date stamped upon receipt. This should occur upon opening the mail or otherwise receiving the instrument (check).

A complete listing of collections received should be made by a person independent of the duties of processing the receipts or making deposits. Editing of the listing should be restricted to initial recorder and the reconciler.

All receipts, licenses, or other accountable items must be pre-numbered or sequentially numbered by computer when issued.

Documents should be used in sequential order. If the volume warrants, a separate numeric series should be used for different revenue sources.

Licenses, permits, goods for sale, invoices, etc., are considered accountable items for which a corresponding deposit must be made.

Receipts should be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment.

Licenses, permits, and other accountable items should be issued timely.

Collections must be deposited intact. Deposits are to be made within the next business day in compliance with IC 5-13-6-1.

Safeguard the collections through locked drawers, cabinets, or safes, particularly during breaks, lunchtime, and overnight.

Cash, receipts, books, licenses, etc., should be inaccessible to unauthorized persons.

Collections and other accountable items should reconcile to the bank statements and the agency's cash book. There is no authority for an agency to maintain an "over" or "short" fund.

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The duties of collecting monies, processing the receipt, license, permit, etc., preparing and making deposits, and performing reconciliations should be segregated to the fullest extent possible considering the size of the agency and the materiality of collections.

Supporting documentation for monies received must be maintained and made available for audit to provide supporting information for the validity and accountability of monies received.

Documents must be filed in such a manner as to be readily accessible, or otherwise reasonably attainable, upon request during an audit.

Accounts Receivable

Example Key Controls

Duties are segregated so that the following responsibilities performed by different people:

- Custody of the funds, reconciliation of the funds and access to cash receipts.
- Completing the disbursement receipts, disbursement, and reconciliation.
- Making a deposit, billing, making General Ledger entries and collecting.
- Collecting cash, balancing cash, closing cash registers, making a deposit, maintaining Accounts Receivable records, and making General Ledger entries.
- Collecting of licenses, fines, and inspections (etc.) and making General Ledger entries.
- Collecting cash and reconciling the bank account.
- Reconciling Cash registers daily by a person not involved in cash receipting.
- Preparing the deposit and verifying the validated bank deposit slip.
- Responsibilities for preparing and approving bank account reconciliations and investigation of unusual reconciling items are segregated from those for other cash receipts or disbursement functions.
- Total cash receipts (cash, checks, credit cards, wires) are reconciled on a daily basis to the total dollar value sold. (For example, total dollar amount reconciled to number of licenses issued.)
- Does management review and approve bank reconciliations on a monthly basis.
- Are timely corrective actions taken in cash discrepancies.
- Write-offs or adjustments have proper authorizations.
- Subsidiary accounts receivable and notes receivable records are maintained and reconciled monthly with the general ledger control account.
- Duties are segregated so that the following responsibilities performed by different people:
- Billing and collecting of accounts receivable funds.
- Maintenance of detail accounts receivable records, collections, and general ledger posting.

Accounts Receivable

Example Key Controls
(Continued)

- Writing off or adjusting to accounts receivable and maintenance of accounts receivable records.
- Investigating disputes with billing amounts and maintenance of accounts receivable records.
- Reconciling, investigating reconciling items, and posting detail accounts receivable records.
- Is access to the accounts receivable accounting system limited only to authorized individuals.
- Corrections and adjustments to cash receipts are documented and approved by management.
- Non-cash credits, such as credit memos, allowances, and bad debts are properly authorized.
- An aging schedule is prepared monthly and reviewed by management.
- Accounts are reviewed by someone independent of cash and accounts receivable accounting.

Purchasing / Accounts Payable

Example Objectives and Risks

Example Objectives		Example Risks
All requests for goods and services are initiated and approved by authorized individuals and are in accordance with budget and appropriation guidelines.		• Purchases from unauthorized vendors. • Purchases are in violation of a conflict-of-interest policy. • Purchases are not timely. • Purchases not in accordance with budget and/or appropriations provisions.
All purchase orders are based on valid, approved requests and are properly executed as to price, quantity, and vendor.		• Payment in excess of optimum price. • Quantities not adequate or in excess of need.
All materials and services received agree with the original orders.		• Payment for materials or services not received. • Damaged or missing goods not reported.
All invoices processed for payment represent goods and services received and are accurate as to terms, quantities, prices, and extensions; account distributions are accurate and agree with established account classifications.		• Payment based on improper price or terms. • Accounting distribution of cost is inaccurate.
All checks are prepared on the basis of adequate and approved documentation, compared with supporting data, and are properly approved, signed and mailed.		• Incorrect or duplicate payments. • Alteration of checks. • Disbursement for materials or services not properly documented or approved.
All disbursement, accounts payable, and encumbrance transactions are promptly and accurately recorded as to payee and amount.		• Improper cash, accounts payable and encumbrance balances.
All entries to accounts payable, reserve for encumbrances, asset and expense accounts, and cash disbursements are properly accumulated, classified, and summarized in the accounts.		• Misstated financial statements. • Misstated internal financial data.

Minimum Internal Controls per the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies
Chapter 5 - Procurement

If one individual is responsible for the requisition, purchasing, and receiving functions, fictitious or unauthorized purchases can be made. This may result in the theft of goods and possibly payment for unauthorized purchases.

Roles approved by the Financial Policy Group and set up by GMIS are designed to reduce the risk of collusion and unauthorized purchasing to a relatively low level. It is recommended that the various roles be assigned to separate individuals. The basic underlying rule is "no one should be able to approve his/her own work." Also, no one can obtain a 'working' role without completing the applicable training.

General rules for approval roles are:

- It is highly recommended that an Approver complete the training for related modules.
- An Approver should not approve his/her own work.
- An Approver should be at a higher level of authority than the originator; if this is not possible, should be at the same level, but in a different department.
- An Approver should never be at a lower level of authority than the originator.
- An Approver should be knowledgeable about the process/purchase in order to authorize.
- An Approver is ultimately responsible for all entries in the transaction, including chart fields and accounting entries.

An employee who has been designated as Procurement Agent/Buyer for an agency after satisfactorily completing applicable IDOA courses may be assigned to Requisition, RFP, and PO roles if the following conditions are met:

- Requisitioner records Requestor (if different) and requisition is approved by 1) ProcAgent and; 2) FISCAL (see role names below).
- PO is then to be approved by the agency Head Procurement Agent or IDOA (if applicable).

The following are definitions of ePro entry and approval roles:

- SOI_Ag_Proc_Agent – Procurement Agent – Delegated by IDOA; if more than one, a Head Procurement Agent is determined.

- SOI_Ag_Fiscal – Fiscal approver – Usually CFO or director of accounting department – must have knowledge of accounting rules, chart of accounts, etc.

NO ONE should hold both of the above roles. Agency designated "SOI_ePro_Buyer" can hold the SOI_Ag_Proc_Agent role.

Additional levels may be added, as requested by the agency, for certain types or cost of purchases.

The ePro system will automatically route requisitions through the approval system as required for each type of purchase. Approvals may be required of the Commission on Public Records (ICPR), the Office of Technology (IOT), or the Department of Administration (IDOA) Procurement Division, Motor Pool, Budget Agency, PEN Products and/or IN-ARF. Necessary budget checks will be processed automatically prior to agency supervisory approvals.

Purchasing / Accounts Payable

Minimum Internal Controls per the Accounting and Uniform
Compliance Guidelines Manual for State and Quasi Agencies
Chapter 6 – Expenses / Expenditures

Separation of duties is critical to internal control for processing payables and expenses (or expenditures).

Care must be taken to assure that all invoices are recorded timely and accurately and that all purchases are authorized. PeopleSoft Financials roles designed to provide this assurance are discussed in Chapter 2, Internal Controls.

Those with workflow approvals are responsible for certifying the accuracy of all information on the document they are approving.

The person verifying the count of product and entering the receiver into the system should be independent of both the purchasing and invoicing functions. Exceptions to this rule are granted by the internal control group in certain situations where the actual receiver of the product does not have system access; in these cases, the actual receiver must sign and date the bill of lading and then pass it on to the AP Receiver, who is responsible for retaining these documents for audit purposes.

All purchase orders and receiving reports should be matched to invoices, with follow-up on inconsistent information.

Individuals independent of the purchasing and receiving functions should follow up on mismatched or unmatched, missing, or duplicate items.

Vendor statements should be reconciled to accounts payable items.

Returns and allowances credit memos should be matched to shipping orders and/or vendor communications.

Individuals independent of the accounts payable function should follow up on unmatched shipping orders for returned goods and related receiving reports and invoices and resolve missing, duplicate, or unmatched items.

Any subsidiary ledgers should be reconciled with purchase and cash disbursement transactions, and differences resolved.

Access to accounts payable and related files should be restricted.

Warrants and remittance advices should be verified and mailed without allowing them to return to the staff that prepared claims or approved the transactions for payment.

Warrants should be verified in a timely manner and retained in a secure location until mailed.

Purchasing / Accounts Payable

Minimum Internal Controls per the Accounting and Uniform
Compliance Guidelines Manual for State and Quasi Agencies
Chapter 6 – Expenses / Expenditures
(Continued)

An approver role should not be taken lightly, as this is a very important segment of the internal control process. A few basic rules apply when assigning these roles:

- An approver should be at a higher level of authority than the originator of the transaction; exceptions might be made if the approver is 1) in another department and 2) has a working knowledge of the accounting and recording of the transaction. However, the approver should never be at a lower level of authority.

- An approver is responsible for authorizing the payment and for certifying the accuracy of all information on the transaction, including, but not necessarily limited to:

    - Chart field values
    - Dollar amount
    - Vendor information, including remit to address

An approver should confirm that PO vouchers are copied from PO receipts.

Purchasing / Accounts Payable

Minimum Internal Controls per the Accounting and Uniform
Compliance Guidelines Manual for State and Quasi Agencies
Chapter 10 – Travel

Each state agency should establish controls to ensure that all payments and reimbursements for travel expenses are legitimate, accurate and in compliance with State travel rules and regulations. Travel reimbursements should not be made for travel of a personal nature.

All claims for reimbursement should be approved by an authorized person.

Purchasing / Accounts Payable

Example Key Controls

Purchase orders or contracts are approved by appropriately designated persons before issuance.

Changes to contracts or purchase orders are subject to the same controls and approvals as the original agreement.

Duties are segregated so that the following responsibilities performed by different people:

- Requisitioning, purchasing, and receiving functions and the invoice processing, accounts payable, and general ledger functions.
- Purchasing, requisitioning, and receiving.
- Invoice processing and making entries to the general ledger.
- Preparation of cash disbursements, approval, and entries to the general ledger.
- Making detail cash disbursement entries and entries to the general ledger.

Disbursements are approved for payment only by properly designated persons.

The individual responsible for approval is furnished with invoices and supporting data to be reviewed prior to approval.

Adjustments of recorded accounts payable or other liabilities are properly approved.

Requests for progress payments under long-term contracts are formally approved by a designated contract administrator with formal approval authority.

P-card purchases are reconciled monthly by someone other than the cardholder.

Human Resources

Example Objectives and Risks

Example Objectives		Example Risks
Additions, separations, wage rates, salaries, and deductions are authorized and documented. Payroll and personnel policies are in compliance with grant agreements and federal and state laws.		• Unauthorized or fictitious names are added to the payroll. • Payments continued to terminated employees. • Wage rates and salaries used are at a higher rate than authorized. • Payroll reimbursement through grant funding denied. • Penalty for noncompliance with federal and state laws.
Employees' time and attendance data are properly reviewed and approved.		• Employees are paid for time which they did not work. • Employees are paid for time which was unnecessary or unauthorized.
Employees' time and attendance data are properly processed and documented and accurately coded for account distribution.		• Employees are paid for time which they were absent from work. • Errors in coding of accounting distribution for payroll costs.
Computations for gross pay, deductions, and net pay are accurate and based on authorized time and rates; the recording and summarization of payments to be made and cost to be distributed are accurate and agree with established account classifications.		• Employee compensation and payroll deductions are computed erroneously. • Payroll and related costs are not distributed in accordance with established account classification. • Reimbursable payroll costs are not recovered under grant or shared cost programs. • Amounts paid at rates different than those authorized.

Human Resources

Example Objectives and Risks
(Continued)

Example Objectives		Example Risks
Payments for employee compensation and benefits are made to or on behalf of only bona fide employees for services performed as authorized.		• Payments made to unauthorized individuals. • Employees paid for unauthorized benefits.
Employee compensation and benefit costs are properly accumulated, classified, and summarized in the accounts.		• The accounting distribution of payroll and related costs are classified improperly. • Accrued liabilities or disclosures for employee benefits are misstated.

Human Resources

Minimum Internal Controls per the Accounting and Uniform
Compliance Guidelines Manual for State and Quasi Agencies
Chapter 9 – Payroll and Personnel Transactions

Regardless of the system used in time collection and to process payroll transactions, an internal control system should be in place to assure correctness and accuracy on payroll related documents.

T&L electronic submissions must be approved by a supervisor.

The approval should be by a direct supervisor who has knowledge of the employee's attendance.

The electronic submissions and approvals are considered adequate documentation of the control activities; it is not required to print the attendance report.

If an agency is not yet utilizing Time and Labor, attendance reports should be dated as of the last day worked, should be signed by the employee, and should be approved by a direct supervisor who has knowledge of the employee's attendance.

Human Resources

Example Key Controls

Approved notices of additions, separations, and changes in salaries, wages, and deductions are reported according to the payroll scheduled cut-off date.

Terminated employees are interviewed as a physical check on departures and as a final review of the termination settlement to ensure that all keys, equipment, credit cards, etc., are returned.

Completed payroll transmittals are reviewed and approved by a responsible official before processing.

Payroll registers are reconciled to the payroll accounts in the general ledger by a knowledgeable person not otherwise involved in payroll processing.

Individual employee time and attendance records are:

- Prepared and signed by each employee for each pay period.
- Sufficiently detailed to show time charged properly.
- Reviewed and signed by each employee's supervisor.
- Reconciled with centralized time and attendance records.

Hours worked, overtime hours, compensatory time, and other special benefits (on-call, shift premium) are reviewed and approved by the employee's supervisor.

Individual employee leave records are reconciled, at least annually, to appropriate records maintained for accumulated employee benefits (vacation, sick leave, etc.).

Inventory

Example Objectives and Risks

Example Objectives		Example Risks
All transactions are approved by authorized individuals.		• Purchase of unauthorized materials acquired in excess of need, at appropriate prices, or at unfavorable terms.
All inventory items are subject to effective custodial accountability procedures and physical safeguards.		• Theft by employees or outsiders; inadequate insurance coverage.
All receipts and withdrawals of inventory are properly recorded, and the records reflect actual quantities on hand.		• No basis for comparing actual usage with expected usage; inability to determine material reorder points.
All transactions are properly accumulated, classified, and summarized in the accounts.		• Misstated financial statements; concealment of shortages.

Inventory

Example Key Controls

The agency maintains perpetual inventory records, and inventory items are put in the perpetual inventory system.

Receiving reports are used to record purchases to the perpetual inventory records.

Duties are segregated so that the following responsibilities performed by different people:

- Receiving and issuing of inventory and the operational duties.
- Receiving and issuing of inventory and taking the physical inventory.
- Receiving and issuing of inventory and approving expenditures, recording transactions in the general ledger, and reconciliation of subsidiary records to control accounts.

Work orders or requisitions are required to be approved by appropriately designated persons as a basis of issuing inventories.

Physical access to inventories is restricted to authorized personnel.

Physical Inventories are -

- supervised by someone independent of the custodial or record keeping functions.
- made by or tested by employees independent of the department being inventoried.
- recorded on permanent inventory count sheets.

Inventory

Example Key Controls
(Continued)

- re-recorded on count sheets signed and dated by the person supervising the count.
- planned to provide provisions for cut-off of receipts and issues.
- reflected in the perpetual records based on the actual inventory quantities.

Adjustments to inventory records are approved by a properly designated individual.

Physical inventory is taken at least annually.

Perpetual inventory balances are reconciled against the general ledger control accounts at least annually.

Management reviews perpetual inventory balance reconciliations at year-end.

Capital Assets

Example Objectives and Risks

Example Objectives		Example Risks
All capital asset transactions are initiated by authorized individuals in accordance with established criteria.		• Fictitious purchases or payments to contractors or suppliers, with or without kickbacks to employees. • Purchases from vendors whose interests are in conflict with the organization. • Purchases of unnecessary assets. • Disposal or scrapping of serviceable assets. • Purchases of assets which do not meet established quality standards.
Advance approval is obtained for all significant capital asset transactions.		• Unauthorized purchases, construction contracts or leases with companies, or individuals related to executive or legislative representatives. • Purchases from related parties without the knowledge of senior officials. • Delay or cancellation of a project. • Expenditures in excess of originally approved amounts without review and approval.
Adequate project cost records are maintained, and in-progress and completed project reports are issued.		• Actual costs that exceed projected amounts. • Overpayments to contractors. • Misclassification of costs between capital and operating budgets.

Capital Assets

Example Objectives and Risks
(Continued)

Example Objectives		Example Risks
All capital assets are accurately recorded in detailed records which are compared with existing assets at reasonable intervals. All capital assets are adequately safeguarded.		• Use of equipment or other assets for other than the unit of government's benefit. • Theft of tools and equipment, maintenance, or supply parts. • Payment of insurance on assets no longer owned. • Unauthorized disposals of assets or diverted proceeds from sales of assets. • Physical loss of assets through inadequate security or insurance coverage. • Continued ownership of obsolete or otherwise nonproductive assets. • Preparation of financial statements which do not accurately reflect existing assets.
All capital assets transactions are properly accumulated, classified, and summarized in the general ledger accounts.		• A misstatement of reported financial position and results of operations. • Violations of loan covenants and/or rules and regulations of various grantor agencies. • Financial or operational decisions based upon erroneous information.

Capital Assets

Minimum Internal Controls per the Accounting and Uniform
Compliance Guidelines Manual for State and Quasi Agencies
Chapter 8 – Capital Asset Accounting

Agency personnel are responsible for accountability for all assets under their control, including capital assets.

Adequate asset management staff should be assigned to recording and maintaining, on the PeopleSoft financial system, all capital assets meeting the capitalization threshold per the State of Indiana Capital Asset Policy.

Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely.

Inventories of capital assets should be performed each year in each department and compared to the PeopleSoft listing.

Results of inventories should be retained for audit purposes.

Capital assets with a cost less than the capital asset threshold per the State of Indiana Capital Asset Policy may be included in PeopleSoft Asset Management at the agency's option. All assets in the system should be capitalized.

Capital Assets

Example Key Controls

Capital asset system and control accounts are reconciled monthly.

Capital asset subsidiary accounts are reconciled to the capital asset control accounts monthly.

Property records are reconciled to property accounts at least annually.

Beginning balances, additions, disposals and ending balances reflected in the note disclosures are reconciled to the capital asset system.

Duties are segregated so that the following responsibilities performed by different people:

- Custodian of the capital assets and taking the annual inventory.
- Reconciliation of the Capital Asset System with the control accounts and making entries in the Capital Asset System.
- Custodian of the capital assets and tagging.
- Custodian of the capital assets and investigating the missing capital assets.
- Custodian of the capital assets, making entries in the Capital Asset System and making entries in the general ledger.

All asset purchases and receipts are approved by a designated person with proper authority.

All disposals of property are approved by a designated person with proper authority.

Changes to the fixed asset system are approved in advance by a designated person with proper authority.

Information Technology

Example Objectives and Risks

Example Objectives		Example Risks
Definition and communication of organizational structure, policies, and procedures.		• Control may be superficial, inconsistently followed, or subject to override or circumvention. • Segregation of incompatible duties. • Opportunities to perpetrate and conceal fraud may exist if personnel have direct or indirect access to assets.
Management and user involvement and approval.		• Personnel may not fully understand users' needs or the accounting aspects of the systems; systems may be developed that perform improper calculation, prepare erroneous reports, or cause other processing errors. • Systems may be designed with inadequate control in the application programs. • User control may be incomplete or ineffectual as a result of poor knowledge of the system and the processing functions performed by the application programs.
Restricted access to application system documentation.		• Unauthorized persons may obtain detailed knowledge of applications and use that knowledge to perpetrate irregularities.
Authorization and approval of systems changes.		• Personnel may make systems changes that do not conform to users' needs resulting in processing errors. • Unauthorized program modifications may be implemented to perpetrate and conceal fraud.

Information Technology

Example Objectives and Risks
(Continued)

Example Objectives		Example Risks
Monitoring integrity of master files.		• Master files may contain erroneous data that cause errors in all transactions using those data. • Master file data may be altered to allow the processing of fraudulent transactions. • Master file data may be altered prior to the preparation of statements or confirmation.
Verifying accuracy of output.		• Unauthorized or fraudulent transactions introduced during processing may not be detected.

Information Technology

Minimum Internal Controls per the Accounting and Uniform
Compliance Guidelines Manual for State and Quasi Agencies
Chapter 2 – Internal Control

Management should design the entity's information system and related control activities to achieve objectives and respond to risks. Control activities are designed to support the completeness, accuracy, and validity of information processing by technology including the design of security management.

Management evaluates changes to systems and updates control activities in response. For example:

- Disaster Recovery ensures that critical accounting information will be processed in the event of interruption of computer processing capacity.

- Back-Up Processing provides for accounting information to be backed up on a periodic basis sufficient to allow restoration of the information in a timely manner.

- Physical Security protects the computer system and the associated telecommunications equipment from environmental damage and unauthorized access.

- Logical Security requires access to accounting information and processes be controlled by operating system software and by the computerized accounting application through user identification codes and passwords.

- Change Controls are internal controls over changes made to the accounting system's computer programs.

- Audit Trails allow for sufficient documentation to trace all transactions from the original source of entry into the system, through all system processes, and to the results produced by the system.

- Input Controls provide input edits and controls to assure that information entered into the system is accurate, that all appropriate information is entered into the system.

- Segregation of Duties can be achieved within information technology systems by appropriate assignment of security profiles that define the data the users can access and the functions they can perform.

- Output Controls are features that assure all accounting information is reported accurately and completely.

- Interface Controls allow for Information generated in one computer application system to be transferred to another computer application system accurately and completely.

- Internal Processing provides written verification procedures and actual verification results that document accurate calculating, summarizing, categorizing, and updating of accounting information on a periodic basis.

See also *Accounting and Uniform Compliance Guidelines for State and Quasi Agencies*, Chapter 14 – Information Technology Controls, in its entirety.

https://www.in.gov/sboa/files/CH14-Information-Technology-Controls.pdf

Information Technology

Example Key Controls

A formal documented security administration process is in place to ensure that all application access, including restricted access to financial applications, is approved.

Management periodically reviews monitoring reports to identify potential unauthorized activity.

The Disaster Recovery plan identifies the following –

- Critical applications.
- Staff responsibilities.
- Steps for recovery of the system.
- Computer equipment needed for temporary processing.
- Business location(s) that could be used to process critical applications in the event of an emergency.

The agency has taken steps to prevent and minimize potential damage and interruption through the use of data and program backup procedures, including off-site storage of backup data as well as environmental controls, staff training and hardware maintenance and management.

The agency monitors information systems access, investigates apparent violations, and takes appropriate remedial and disciplinary action.