



ANNUAL FINANCIAL REPORT (AFR)

A system of internal control may be implemented in many different ways. Because political subdivisions vary in purpose, size and complexity, no single method of internal control is universally applicable. However, the five internal control components should be present and functioning in all political subdivisions.

Questions have been accumulated for all five internal control components. This document includes questions pertaining to various noncompliance issues regarding the preparation, review and submission of the Annual Financial Report (AFR). These questions can be used to aid in designing a proper system of internal control over the preparation, review and submission of the AFR that will allow misstatements of the AFR to be prevented or detected and corrected in a timely manner. It is not necessary to address all questions in this document. These are only suggestions and ultimately it is up to the unit on how they implement it. The internal control system as a whole has to be designed and implemented appropriately in order to allow errors and deficiencies in internal controls in the preparation, review and submission of the AFR to be prevented or detected and corrected.

Units prepare the AFR using the Gateway reporting system. The financial information within the AFR and submitted to Gateway is used to compile the financial statements for those units that present on a Regulatory basis. Units who report on a generally accepted accounting principles (GAAP) basis will complete all sections of the AFR, as well as, submitting their accrual financial statements. The procedures established should be reflective of whatever process is used to complete the AFR.

Control Environment

The questions in this section are divided by questions that pertain to the governing board and management.

Governing Board:

	YES	NO
1) Does the governing board oversee the unit's internal control system over the preparation, review and submission of the AFR?		
2) Are there written policies documenting internal control procedures over the preparation, review and submission of the AFR? If yes, do these written policies outline the authority and responsibility for the preparation, review and submission of the AFR within the unit?		
3) Does the fiscal officer present the AFR to the governing board for review and approval at a regularly scheduled public meeting?		

Management:

1) What procedures did management put in place for the preparation, review and submission of the AFR?		
a. Does management assign responsibility, and delegate authority to achieve a correct AFR and ensure it is submitted timely?		
2) Is management willing to adjust information entered into Gateway for misstatements that approach a material amount?		

Risk Assessment

	YES	NO
1) Does management identify, analyze and respond to risks regarding the preparation, review and submission of the AFR?		
a. What areas have been identified regarding the preparation, review and submission of the AFR that may be exposed to fraud risk?		
b. How has management analyzed and responded to identified risks? For example, management may accept the risk and take no action, choose to eliminate certain processes to avoid the risk and institute proper internal controls.		
2) How does management prevent fraud and errors in the accounting records, which are used to prepare the AFR? For example, are important internal control procedures in place such as approvals, regular preparation or review of reconciliations, review of supporting schedules or reports, etc.?		
3) What procedures are in place to ensure that the information reported on the AFR is correct and reflective of the accounting records?		

Control Activities

	YES	NO
1) Is there a system of checks and balances (segregation of duties) to ensure a correct AFR?		
a. Are responsibilities for preparing the AFR segregated from those involved in reviewing the AFR?		
b. Are responsibilities for preparing the AFR segregated from those involved in submitting the AFR?		
c. Are responsibilities for reviewing the AFR segregated from those involved in submitting the AFR?		



	YES	NO
2) Did management design the unit's information system and related control activities to ensure the proper preparation, review and submission of the AFR?		
a. Did management implement control activities through written policies?		
3) Is the individual authorized to review the AFR knowledgeable in the annual financial report process?		
a. Is there a checklist for the preparation, review and submission of the AFR that includes the following?		
i. Employee names with their responsibilities and duties		
ii. Deadlines for submission of information from each employee		
iii. Detail of supporting documentation required, etc.		
iv. Is a comparison to the prior AFR made to identify material errors and verify the beginning cash and investment balances agree with the prior ending cash and investment balance?		
4) Does the individual authorized to review the AFR understand the unit's recordkeeping system?		
5) Is access to the unit's records appropriately controlled by user logins and passwords? Do individuals involved in the AFR process share their user id and password?		
6) Does management or another designated individual review and check the accuracy of the information submitted through the Gateway reporting system by comparing it to supporting documentation used to input the information before submission? Is this review documented as evidenced by initials, tick marks, etc. indicating procedures performed?		
7) Are there funds held outside the unit's funds ledger that are required to be included in the AFR? If yes, are they supported by Supplemental Annual Reports submitted by departments or other outside agencies?		
8) Does management review and check the accuracy of the Supplemental Annual Report submitted by the departments by comparing it to supporting documentation used to input the information before submission to the fiscal officer? Is this review documented as evidenced by initials, tick marks, etc. indicating procedures performed?		
9) Are the Detailed Error Reports generated from the Gateway system reviewed by management or an individual not involved in the AFR process? How are the errors noted on the report corrected?		
10) Does the unit use an outside consultant to prepare the AFR? (See Long Version for AFR Question #10)		

Information and Communication

	YES	NO
1) Are procedures established to ensure that proper communication and documentation exists for internal communications between offices, departments, management and the governing board regarding the preparation, review and submission of the AFR?		
a. How does the unit internally communicate information regarding the preparation, review and submission of the AFR to employees, including how to prepare a correct AFR and responsibilities for internal control? Are records maintained to document this communication?		
b. Are procedures established to ensure that the communication requirements are being followed and necessary information is being communicated properly?		
c. Are procedures established for feedback on and clarification of the information provided?		
2) What procedures are in place to collect the information needed to complete the AFR?		
a. Does management use the most current information available to ensure the AFR will be correct?		

Monitoring

	YES	NO
1) Are procedures in place to ensure that appropriate personnel perform their required duties sufficiently and adequately follow the policies and procedures of the unit regarding the preparation, review and submission of the AFR?		
2) Are internal control procedures over the preparation, review and submission of the AFR evaluated and adjusted on a regular basis? For example, personnel changes, newly elected officials, etc.		
a. What follow-up action is taken for identified problems or weaknesses in internal controls over the preparation, review and submission of the AFR?		
3) Are monthly reports detailing receipts, disbursements, appropriations and cash and investment balances provided to the appropriate department to review for accuracy and reasonableness?		
4) Are monthly reports detailing receipts, disbursements, appropriations and cash and investment balances provided to management to review for accuracy and reasonableness?		
5) Are monthly reports of receipts, disbursements, appropriations and cash and investment balances provided to the governing board to review?		