



OVERDRAWN CASH AND INVESTMENT BALANCES

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 overdrawn cash and investment balances. These questions can be used to aid in designing a proper system of internal control over the review of cash and investment balances that will allow overdrawn cash and investment balances 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 overdrawn cash and investment balances to be prevented or detected and corrected in a timely manner.

Components of Internal Control:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Control Environment - Sets the tone of the unit and influences the effectiveness of internal controls within the unit. It comprises the integrity and ethical values of the unit and is set by the governing board and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control.

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

Governing Board:

	YES	NO
1) Does the governing board oversee the unit's internal control system regarding the review of cash and investment balances?		
2) If considered necessary, did the governing board establish an oversight committee and appoint members with high ethical values, excellent communication and problem solving skills?		
3) Does the unit have a mission statement, objective and goals?		
4) Does the governing board convey periodic messages of expectations to all employees?		
5) Are there written policies documenting internal control procedures over the review of cash and investment balances? If yes, do these written policies outline the authority and responsibility for the review of cash and investment balances?		
6) How involved is the governing board in understanding the entity's accounting system, overseeing the effectiveness of internal controls over the accounting system, and evaluating whether the accounting records that support the cash and investment balances are correct? For example, is the governing board's involvement limited to attending board meetings, or does the board oversee other things such as unit controls, accounting practices, etc.		
7) Did the governing board develop an organizational chart? If yes, is the organizational chart current and accurate?		
8) Have job descriptions been created outlining specific duties? Is yes, do these duties address responsibilities required for the review of overdrawn cash and investment balances?		
9) Has fiscal authority over the review of cash and investment balances been formally delegated to specific management personnel?		
10) Did the governing board develop a formal employee evaluation system to set the intervals in which employees will be evaluated? If yes, does the formal evaluation system include disciplinary action that will be taken if an employee does not meet the expectations noted in the evaluation system?		
11) Does management provide documented processes regarding the review of cash and investment balances to the governing board for review?		
12) How does the governing board oversee the activities of management that are related to financial reporting? What oversight does the governing board give on the accounting records?		
13) Are accounting department employees required to take vacations?		
14) Has the governing board developed and implemented an ethics policy? If yes, does the policy address potential conflicts of interest? Is there a system of annual acknowledgment in place where either through e-mail submission or manual documentation, each official and employee attests that they have read the policy and will adhere to the policy?		
15) Are there regular meetings of the governing board to set policies and objectives and review the entity's performance?		
16) Are the minutes of such meetings prepared and signed on a timely basis?		
17) Are confidentiality agreements required for employees who come in contact with confidential information?		
18) Are policies regarding personal use of computer equipment and software clearly stated?		



Management:

	YES	NO
1) Does management develop and maintain documentation of the internal control system regarding the review of cash and investment balances?		
2) What procedures did management put in place for the review of cash and investment balances? a. Does management assign responsibility, and delegate authority to achieve correct cash and investment balances?		
3) Does management establish an organizational structure, assign responsibility and delegate authority in order for overdrawn cash and investment balances to be prevented or detected and corrected in a timely manner? If yes, did management establish and document the organizational structure of each office and department? Examples of items to incorporate into the structure could include: an organizational chart, outline of specific duties, designation of responsible persons for each part of the accounting process, documentation of internal control procedures over specific accounting areas, etc.		
4) Does management ensure compliance with the unit's personnel policies and procedures concerning hiring, training, promoting and compensating?		
5) Does management check credentials and references for new employees?		
6) Do employees who are involved in the review of cash and investment balances receive continuous or periodic training? If yes, what kind of training do employees receive to help them maintain their accounting and financial reporting competencies? a. What background, education, and experience do accounting personnel have that assist them with their duties?		
7) Does management reward employees for following good internal control practices through promotions or increase in compensation?		
8) Is turnover of key fiscal personnel relatively low?		
9) Does the workload of accounting employees facilitate the preparation of reliable accounting records?		
10) Does management evaluate performance and hold individuals accountable for their responsibilities? If yes, what action is taken for employees not performing their responsibilities?		
11) Is cross training completed to ensure that more than one employee is knowledgeable about the review of cash and investment balances? This cross training would allow more than one employee to be aware of potential design deficiencies in the internal controls or of noncompliance with internal controls.		
12) Do accounting supervisors frequently prepare reports or reconciliations to verify the accuracy of financial transactions?		
13) Does management take an active role in the financial reporting of the unit?		
14) Is management actually involved in supervision of the various functions?		
15) Does management ask employees for their suggestions on how to improve processes?		
16) Has management given a high priority to its internal control structure?		
17) Does management emphasize meeting the budget and/or financial and operating goals?		
18) Is management willing to adjust the financial statements for misstatements that approach a material amount?		
19) Does management discuss internal controls at management and other staff meetings?		

Governing Board and Management:

1) Does the governing board and management stress adherence to policies and procedures?		
2) Is there a clear assignment of responsibility and delegation of authority to deal with such matters as organizational goals and objective, operating functions and regulatory requirements?		

Risk Assessment - Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. It is the basis for determining how risk will be managed.

	YES	NO
1) Does management identify, analyze and respond to risks regarding the review of cash and investment balances? a. What areas have been identified regarding the review of cash and investment balances that may be exposed to risk? i. Risk factors may include non-compliance with statutes, changes in management or employees, competence and experience of personnel assigned to review cash and investment balances, findings reported in prior audits regarding overdrawn cash and investment balances, new accounting system, volume of receipt and disbursement transactions, susceptibility of fraud occurring in receipting and disbursing activities (including both misappropriation of assets and fraudulent financial reporting), high interest rate on debt, serious financial problems, unauthorized access to accounting applications, override of system controls, etc.		



	YES	NO
b. Does management analyze the identified risks to determine the effect of risk on properly monitoring cash and investment balances? 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.		
c. How has management addressed risks associated with using computerized accounting records, such as unauthorized access to applications or data, potential loss of data, and reliance or inadequate systems that may adversely affect internal control?		
d. 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/or institute proper internal controls.		
e. When needed, does management go back to the governing board to enact or modify policies that will that will clearly define these areas?		
2) Does management clearly define procedures for the review of cash and investment balances to enable the identification of risks and to define risk tolerances? Written procedures should be clear and address items such as who will be involved in the review of cash and investment balances, how proper procedures over the review of cash and investment balances will be achieved and when will proper procedures over the review of cash and investment balances be in place.		
3) How does management prevent fraud and errors in the accounting records, which are used to compute cash and investment balances? 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.?		
4) Is management continually aware of changes, both external and internal, that could affect the review of cash and investment balances? If yes, does management determine any modifications needed in the internal control process to adopt to these changes?		
5) Did the governing board or management incorporate external requirements, such as state statutes and Uniform Compliance Guidelines?		
6) What procedures are in place to ensure that the cash and investment balances reported on the fund report (or other reports that report cash and investment balances) are correct and reflective of the accounting records?		
7) Are employees involved in the bank reconciliation process, receipting processes and disbursing processes bonded?		

Control Activities - The actions and tools management establishes through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives and to respond to risk in the internal control system.

	YES	NO
1) Is there a system of checks and balances (segregation of duties) to ensure the proper review of cash and investment balances?		
a. Are responsibilities for preparing the bank reconciliation segregated from those involved in the review of cash and investment balances?		
b. Are responsibilities for reviewing the bank reconciliation segregated from those involved in the review of cash and investment balances?		
c. Is a reconciliation between the receipts ledger and the credits to the bank account completed periodically by individuals segregated from those involved in the review of cash and investment balances?		
d. Is a reconciliation between the disbursements ledger and the debits to the bank account completed periodically by individuals segregated from those involved in the review of cash and investment balances?		
e. Are responsibilities for reviewing cash and investment balances segregated from those involved in the receipting and disbursing processes?		
2) Does management present month end reports detailing cash and investment balances to the governing board for review and approval?		
3) Did management design the entity's information system and related control activities to ensure the proper review of cash and investment balances?		
a. Did management implement control activities through written policies?		
b. Is access to the bank reconciliation applications appropriately controlled by user logins and passwords?		
c. Do individuals involved in the bank reconciliation process share their user id and password?		
4) Does management or a designated individual review and check the accuracy of cash and investment balances by comparing them to other supporting documentation? If yes, is this review documented as evidenced by initials, tick marks, etc. indicating procedures performed?		
5) Is the individual authorized to oversee the review of cash and investment balances knowledgeable?		
6) Does the individual authorized to oversee cash and investment balances understand the unit's recordkeeping system?		



	YES	NO
7) Is there a checklist for reviewing cash and investment balances that includes the following:		
a. Employee names with their responsibilities and duties		
b. Deadlines for completing the review of cash and investment balances		
c. Detail of supporting documentation required		
8) Is the budget process working effectively?		
a. Are proper estimates and other documents used in the budget process retained and reviewed by management?		
b. Are budgets reviewed and approved by the responsible department head?		
c. Are budgets reviewed and approved by the governing board?		
d. Are budget modifications approved by management and/or the governing board?		
e. Are monthly reports detailing disbursements and appropriations provided to the appropriate department to review for accuracy and reasonableness?		
f. Are monthly reports detailing disbursements and appropriations provided to management to review for accuracy and reasonableness?		
g. Are monthly disbursement and appropriation reports reviewed by the governing board?		
h. Are comparisons made between budgeted and actual disbursements? Do significant variations require an explanation?		
i. Are appropriation balances reviewed to determine if sufficient balances exists prior to writing checks?		
j. Have controls been established to track periodic or contractual payments made to a vendor in order to properly oversee and forecast budgeted amounts?		

Information and Communication - Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information.

	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 review of cash and investment balances?		
a. How does the unit internally communicate information to employees regarding the review of cash and investment balances, including 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 a proper review of cash and investment balances?		
a. Does management use the most current information available to ensure cash and investment balances are correct?		

Monitoring - Activities that allow management to assess the quality of internal controls over time and make adjustments as necessary. Proper monitoring ensures that controls function properly.

	YES	NO
1) Are internal controls over the review of cash and investment balances evaluated and adjusted for weaknesses on a regular basis? For example personnel changes, newly elected officials, new technology, etc.		
a. What follow-up action is taken for identified problems or weaknesses in internal controls over the review of cash and investment balances?		
2) Are monthly reports detailing receipts, disbursements, cash and investment balances and appropriations of the funds provided to the appropriate department to review for accuracy and reasonableness?		
3) Are monthly reports detailing receipts, disbursements, cash and investment balances and appropriations of the funds provided to management to review for accuracy and reasonableness?		
4) Are monthly reports of receipts, disbursements, cash and investment balances and appropriations of the funds provided to the governing board to review?		
5) Does a confidential reporting system exist so that individuals may report suspected fraud and abuse of the unit's policies?		