

Accounting Internal Controls for
Clerk Treasurers
and Other Topics

Internal Control

Definition

Systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organization to (1) conduct its business in an orderly and efficient manner, (2) safeguard its assets and resources, (3) deter and detect errors, fraud, and theft, (4) ensure accuracy and completeness of its accounting data, (5) produce reliable and timely financial and management information, and (6) ensure adherence to its policies and plans.

Internal Controls

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

Areas for Clerk-Treasurers to Review

- Reconciling
- Daily Deposits
- Timely Posting
- Cash Collections
- Segregation of Duties

Reconciling

- Bank statements must be reconciled at least monthly per IC 5-13-6-1.
- Document this reconciliation at least monthly.
- Identify and correct errors detected in a timely manner.



Daily Deposits

- Required by IC 5-13-6.
- Safeguarding control
 - Daily close out
 - Limits access



Timely Posting



- Required by the uniform compliance guidelines.
- Necessary for accurate financial reporting
- To reduce and prevent skimming

Cash Collections

- Specify Procedures
 - In writing
 - Give Training
 - Observe
 - Get and Give Feedback
- Separate Cash Drawers
- Objective is to identify the responsible employee at all times.

Segregation of Duties

- This is a process of identifying incompatible duties and assigning them to different individuals.
- This is Form 7A that the field examiners may ask you to complete for the internal control evaluation we are required to perform as part of your audit.

Cash Receipts	T	1st	2nd		3rd	BD			
			A	B		A	COM	CC	NA
Open mail and write receipt	X	X	X	X	X				
Receive money, issue official receipts	X	X	X	X	X				
Take off cash register totals		X							
Balance cash drawer or cash register		X							
Make up bank deposits	X	X							
Take deposits to bank or remit to receiving officer	X	X							
Post receipts	X	X	X	X	X				
Access to computer system to make adjustments							X		
Approves adjustments							X		

Cash Receipts (cont)	T	1st	2nd		3rd	BD			
			A	B		A	COM	CC	NA
Post credits to accounts receivable							X		
Prepare customer billings	X	X							
Mail billings or statements	X								
Approve bad debt write offs							X	X	
Approve accounts receivable adjustments							X		
Issue permits, licenses, etc.									X

Cash Disbursements for Purchases	T	1st	2nd		3rd	BD			
			A	B		A	COM	CC	NA
1. Authorize purchases	X								
2. Prepare purchase orders									X
3. Certify receipt of goods or services		X							
4. Audit claims							X		
5. Approve claims - Disbursing Officer							X	X	

<u>Cash Disbursements</u>	T	1st	2nd A	2nd B	3rd	A	BD COM	CC	NA
Write checks						X			
Post checks						X			
Sign checks - Control of signature stamp	X	X				X			
Mail or distribute checks						X			
Custodian of petty cash	X								
Custodian of investments	X								
Access to check stock						X			
Access to computer system to make adjustments						X			
Approves adjustments						X			

<u>Cash</u>	T	1st	2nd A	2nd B	3rd	A	BD COM	CC	NA
1. Receives bank statement in mail and opens it	X								
2. Compares checks cleared to disbursements posted		X							
3. Compares deposits to receipts posted Prepares bank		X							
4. reconciliation Approves bank		X							
5. reconciliation	X								

FINAL REVIEW OF SEGREGATION OF DUTIES

Compare incompatible duties across the groupings of:

Cash Receipts
 Cash Disbursements
 Cash



OTHER TOPICS

1. Record Retention Schedules
2. Travel Policies
3. Leave Policies
4. Future Meetings/Revisions
5. Sewer/Weed Liens
6. Year-End Duties
 - Encumbrances
 - Old Outstanding Checks
 - Certification to County Treasurer
 - Dormant Fund Balances
 - L R & S Report
 - 100-R Report
 - Gateway Annual Report

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PART I – TO BE COMPLETED BY UNIT OFFICIAL

Questionnaire completed by:

Name	Title	Date

CONTROL ENVIRONMENT

1. Communication and enforcement of integrity and ethical values:
 - a. What action is taken to address departures from approved policies or unacceptable conduct that might create errors on the accounting records?

 - b. If fraud is alleged, what does management or the governing body (board) do to investigate the allegation, take appropriate and consistent actions against violators, and assess how relevant controls could be improved?

2. Commitment to competence:
 - a. What background, education, and experience do accounting personnel have that assist them with their duties?

 - b. What training do employees receive to help them maintain their accounting and financial reporting competencies?

3. Participation of those charged with governance (board):
 - a. How does the governing body (board) oversee the activities of management that are related to financial reporting (what oversight does the board give on the accounting records?)

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- b. How involved is the governing body (board) in understanding the entity's transactions, overseeing the effectiveness of internal control, and evaluating whether the accounting records are correct? (For example, is board involvement limited to attending board meetings, or does the board oversee other things such as unit controls and accounting practices.)

- c. What interaction does the governing body (board) have with Examiners from the State Board of Accounts?

4. Management's philosophy and operating style:

- a. How does management prevent fraud and errors in the accounting records (for example, by performing important internal control procedures such as approvals, regular preparation or review of reconciliations, and review of supporting schedules or reports, etc.)?

- b. 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 on inadequate systems that may adversely affect internal control?

- c. What policies and procedures has management established to prevent unauthorized access to documents, records, computer programs, and assets?

5. Organizational structure:

- a. What is the organizational structure of the unit?

Due to the nature of the governmental unit, the organizational structure of the unit is determined by Indiana statute.

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6. Assignment of authority and responsibility:
 - a. How is authority and responsibility within the governmental unit assigned?

 - b. What are management's procedures for authorizing transactions?

 - c. How are computer applications updated for rate changes, fee changes, and other changes that would be necessary? (Explain approval process.)

7. Human resource policies and practices:
 - a. What policies and practices are in place to ensure background and reference checks for new employees, adequate training, and regular performance evaluations, especially for accounting and IT personnel?

 - b. What is the turnover of accounting and IT personnel?

RISK ASSESSMENT PROCESS

1. Financial reporting objectives:
 - a. What procedures are in place to ensure that the information reported in the annual report is correct and reflective of the accounting records?

2. Management of financial reporting risks:

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a. Have any of the following conditions occurred?

Have There Been Any:	Yes	No
Changes in the operating environment		
New personnel		
New or revised information systems		
Restructuring or reorganization and resulting staff reductions, changes in supervision, or segregation of duties		
Changes in laws and regulations		

b. If any of the conditions above exists, what effect does it have on the ability to prepare a correct annual report and how have they been addressed?

3. Consideration of fraud risk:

a. What areas have been identified that may be exposed to fraud risk?

b. How does the entity identify the processes, controls, and other procedures needed to reduce identified fraud risks?

INFORMATION AND COMMUNICATION PROCESS

1. What procedures are in place to collect the information needed to complete the annual report?

2. Internal communication:

a. What are the ways in which employees are encouraged to report suspected fraud to management?

3. External communication:

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- a. How does the governmental unit address internal control findings issued by the State Board of Accounts?

- b. How is input from citizens, vendors, and other external parties acted upon when it may impact the integrity of financial reporting?

MONITORING PROCESS

1. Ongoing internal control evaluation:
 - a. What is the procedure to ensure that appropriate personnel perform required reconcilements and what is the process for management to review the reconciliation?

2. Reporting of internal control deficiencies:
 - a. What follow-up action is taken for identified problems or weaknesses in internal controls (including matters communicated by the State Board of Accounts)?

Part I - Questionnaire

Questionnaire completed by:

Name	Title	Date

General Information

Name of governmental unit:			
Governmental unit's address:			
Primary contact:		Email address:	
Telephone number:		Fax number:	

Structure and Governance

1. The primary activities, programs, and services of the City/Town are: (Strike through or delete any that don't apply.)
 - a. General Government
 1. Planning and Zoning Activities
 2. Providing a judicial system which is primarily responsible for handling traffic violations
 3. Overall administration of the unit
 - b. Public Safety
 1. Law Enforcement
 2. Fire Protection
 3. Protective Inspection
 4. Probation
 - c. Street Maintenance
 - d. Sanitation Services
 - e. Recreation facilities and programs
 - f. Urban Redevelopment and Housing
 - g. Promotion of Economic Development
 - h. Aviation - administration of city/town owned airport
 - i. Utility Services:
 1. Water
 2. Wastewater
 3. Electric
 4. Gas
 5. Storm Water

6. Trash

- j. The City has established the departments listed in the following table. (Strike through or delete any that don't apply and add any departments not listed.) Also identify if any of the departments have encountered new or major accounting items, applied for or received federal money in their department or have encountered problems or have special concerns. If new or major accounting items or encountered problems or special concerns are indicated, identify the item below the table. (New or major accounting items might include, new debt issued, fee or rate increases, new grants, construction projects, or new accounting software.)

Department	New or Major Accounting Items? (Yes or No)	Received Federal Money? (Yes or No)	Money Collection Point? (Yes or No)	Indicated Problems or Concerns? (Yes or No)	SBOA Use Only Prior Period Findings? (Yes or No)
Police Pension Fund					
Firefighters' Pension Fund					
Park and/or Recreation Department					
Building Department					
Transportation Department					
Police Department					
City and Town Courts					
Barrett Law Improvement Funds					
General Improvement Funds					
Cemetery					
Department of Public Sanitation					
Department of Redevelopment					
Emergency Medical Service					
Department of Aviation					

Items Identified:

- 2. List the members of the governing body; for example city/town council members:

Name	Title	First Year Elected To Position	Background

- 3. List the principal members of the executive branch of the governmental unit (mayor, city manager, clerk-treasurer, etc.)

Name	Title	Phone Number
	Mayor	
	Clerk-Treasurer	
	Main Bookkeeper	
	Payroll Clerk	
	Claims Processing Clerk	
	Park Director	
	Wastewater Superintendent	
	Street Commissioner	
	Police Chief (Pension Information)	
	Fire Chief (Pension Information)	
	Water Superintendent	
	Electric Superintendent	

4. Describe the relative division of authority and responsibilities between the governing body and responsible officials. (Tailor to fit your unit of government.)

a. City/Town Council – Powers and Duties [IC 36-4/IC 36-5]

1. Enact ordinances
2. Adopt the annual budget
3. Fix salaries of elected officials
4. Impose tax levy
5. Establish fees
6. ___

b. Mayor – Powers and Duties [IC 36-4-5-3]

1. Chief administrative officer
2. Appoint
3. Signs (all) contracts and other documents
4. ___

c. Clerk/Treasurer – Powers and Duties [IC 36-5-6-6 Towns], [IC 36-4-10 Cities]

1. Retaining charge of city books
2. Compilation of ordinances
3. Record council proceedings
4. Chief fiscal officer in towns and 3rd class cities (In 2nd class cities the chief fiscal officer is Controller)
5. ___

5. Identify the group(s) or individual(s) charged with governance. (Strike through or delete items that don't apply.)

- a. City/Town Council
- b. Board of Works and Safety
- c. Park and Recreation Board
- d. Utility Service Board
- e. Department of Waterworks

6. Does the governmental unit do business with anyone who works or who is related to someone who works at the governmental unit? If so, list the name of the individual, what relationship or connection they have with the governmental unit and the type of service or product provided. (This information is normally

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documented on a conflict of interest statement.)

Name	Relationship	Type of Transactions

7. List each location maintained by the governmental unit and the nature of the activity performed at each.

Name	Activity

Activity, Regulatory, and Other External Factors

8. Describe any special regulatory or contractual provisions and reporting requirements that apply to the governmental unit. (For example, whether the government is subject to a Single Audit (required if federal expenditures are greater than \$500,000), federal agency requirements pertaining to grants or reports to the Utility Regulatory Commission.)

9. Describe any other external factors, such as economic, political, or social conditions, that affect the government unit. (Examples: a. Political pressure to keep utility rates low; b. Political pressure exists to keep tax rates low while maintaining a high level of services to citizens.)

Nature of Entity

10. Besides property taxes, what are the governmental unit's major sources of revenues and receipts? (Describe major types of taxes, grants, etc.)

11. Besides payroll expenditures, what are the major expenditures of the governmental unit?

12. Describe the governmental unit's compensation methods (salary, hourly wage, etc.), frequency and timing, etc. Also, describe any unusual employee compensation arrangements, including any incentive

compensation arrangements (individual, title, and method of computation.)

13. Describe the types of investments the governmental unit invests in and the unit's investment policy. Also, if derivatives are used, please indicate how?

14. What are the governmental unit's major sources of financing (such as short-term borrowing, lines of credit, long-term debt, or leasing?)

Objectives, Strategies and Related Risks

15. Describe the governmental unit's expectations, objectives, and strategies in the following areas:

a. Products, services, and programs (i.e., what are the plans for current products, services, and programs, and what are the plans for developing new products, services and programs?):

b. Governmental funding policies (How will the unit accomplish paying for current and new products, services, and programs? Example: Tax revenues, state and federal grants, charges for services, new debt issued, etc.):

c. Technology (Is the unit planning on purchasing any new technology, such as new accounting software, new computer systems, or other related equipment?):

Measurement and Review of the Entity's Financial Performance

16. What performance measures, both financial and nonfinancial, are most important in managing and measuring the performance, and what reports are used to monitor performance? (Examples; monthly reconcilements, annual budgets, monthly detail appropriation reports, etc.)

Accounting Records

17. What accounting records are involved in the processing of transactions? (If prescribed form(s) are not used, indicate the alternate form used, if approved by SBOA or indicate if no form is used.)

SBOA Prescribed Forms	Alternate Form Used?	Approved by SBOA?	No Form Used
Issuing Receipts City Form 203 and Town Form 217			
Issuing Receipts Utility Forms 310, 311, and 312			
Recording Receipts City/Town Form 208			
Purchase Order General Form 98			
Accounts Payable Voucher Forms City Form 201 and Town Form 39			
Municipal Water Utility Accounts Payable Voucher Form 301			
Municipal Gas Utility Accounts Payable Voucher Form 325			
Municipal Electric Utility Accounts Payable Voucher Form 305			
Municipal Wastewater Utility Accounts Payable Voucher Form 301S			
Publishers Claim General Form 99P			
Mileage Claim General Form 101			
Accounts Payable Voucher Register General Form 364			
Clerk-Treasurer's Warrant Town Form 219, City Form 205A			
Ledger of Appropriations, Encumbrances, Disbursements, and Balances City and Town Form 209			
General Fixed Asset Account Group City/Town Form 211			
Employee's Service Record General Form 99A			
Payroll Schedule and Voucher General Form 99			
Clerk-Treasurer's Warrant Town Form 219 Payroll Warrant City Form 205A-PR			
Employee's Earnings Record General Form 99B			
Register of Investments General Form 350			