



DISBURSING ACTIVITIES

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 disbursing activities. These questions can be used to aid in designing a proper system of internal control over disburse activities that will allow improper procedures to be prevented or detected and corrected. 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 disbursing activities to be prevented or detected and corrected.

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 disbursing activities?		
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 disbursing activities including purchase orders and contracts?		
6) Do written policies address what approvals are necessary for certain dollar amount or types of purchases, how approvals are documented, types of purchases that are prohibited or restricted (i.e. purchases for personal use, computer hardware and software, etc.), and procedures for determining the most cost effective purchase (i.e. quotes, local business preferences, emergency purchases, etc.)?		
7) How involved is the governing board in understanding the unit's disbursing activities, overseeing the effectiveness of internal controls over disbursing activities, and evaluating whether the accounting records that support disbursements 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.		
8) Does the governing board approve major expenditures in the board minutes?		
9) Did the governing board develop an organizational chart? If yes, is the organizational chart current and accurate?		
10) Have job descriptions been created outlining specific duties? Is yes, do these duties address responsibilities required for disbursing activities?		
11) Has fiscal authority been formally delegated to specific management personnel?		
12) 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?		
13) Does management provide documented processes regarding disbursing activities to the governing board for review?		
14) 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?		
15) Are accounting department employees required to take vacations?		
16) 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?		



	YES	NO
17) Are there regular meetings of the governing board to set policies and objectives and review the entity's performance?		
18) Are the minutes of such meetings prepared and signed on a timely basis?		
19) Are confidentiality agreements required for employees who come in contact with confidential information?		
20) Are policies regarding personal use of computer equipment and software clearly stated?		
21) Is there an approved travel policy?		
22) Is there an approved policy for employee reimbursements for other expenses?		

Management:

1) Does management develop and maintain documentation of the internal control system over disbursing activities?		
2) What procedures did management put in place for disbursing activities?		
a. Does management assign responsibility, and delegate authority to achieve a proper disbursing activities?		
3) Does management establish an organizational structure, assign responsibility and delegate authority in order to achieve proper disbursing activities? 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 regarding hiring, training, promoting and compensating?		
5) Does management check credentials and references for new employees?		
6) Do employees who are involved in disbursing activities 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 disbursing activities? 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?		
20) Are procedures for the disbursement of funds under grants imposing requirements updated when they differ from the unit's normal policies?		

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?		
3) Is the unit meeting its financial obligations?		



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 disbursing activities?		
a. What areas have been identified regarding disbursing activities that may be exposed to fraud risk?		
i. Risk factors may include changes in management or employees, competence and experience of personnel assigned to disbursing activities, findings reported in prior audits regarding disbursements, new technology allowing alteration of documents, non-compliance with statutes and other policies and ordinances, new accounting system, volume of disbursement transactions, inaccurate financial statements, insufficient documentation, interest and finance charges being paid, unnecessary expenses, insufficient appropriation, unauthorized journal entries, unauthorized access to disbursement applications, override of system controls, etc.		
b. Does management analyze the identified risks to estimate the effect of the risk on achieving proper disbursing activities? For example, does management consider how likely the risk will occur, how it will impact the objective, if the risk is based on complex or unusual transactions, if the risk is based on fraud, etc.		
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 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.		
e. When needed, does management go back to the governing board to enact or modify policies that will clearly define these areas?		
2) Does management clearly define proper disbursing activities 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 disbursing activities, how proper disbursing activities will be achieved, and when will proper disbursing activities be in place.		
3) Is management continually aware of changes, both external and internal, that could affect disbursing activities? If yes, does management determine any modifications needed in the internal control process to adopt to these changes?		
4) Did the governing board or management incorporate external requirements, such as state statutes and Uniform Compliance Guidelines?		
5) What procedures are in place to ensure that disbursements are correct and reflective of the accounting records?		
6) Are employees involved in disbursing activities 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 reporting of disbursements?		
a. Are responsibilities for approving claims segregated from those involved in preparing the claims?		
b. Are responsibilities for preparing and writing checks segregated from those who approve claims?		
c. Are responsibilities for acknowledging the receipt of goods or services segregated from those preparing and writing checks?		
d. Are responsibilities for preparing the bank reconciliation segregated from those involved in disbursing activities?		
e. Are responsibilities for reviewing the bank reconciliation segregated from those involved in disbursing activities?		
f. Are responsibilities for performing reconciliations between the disbursement ledger and the debits to the bank account completed periodically by an individual segregated from those involved in disbursing activities?		
g. Are responsibilities for individuals involved in the receiving process segregated from those involved in disbursing activities?		
h. Are responsibilities for the preparation and approval of claims segregated from those involved in recording or entering cash disbursement information in the records? (In most cases the disbursement will be posted during the preparation of the disbursement.)		
i. Does a responsible individual who is independent of the purchasing department perform periodic reviews of purchase prices?		
2) Are there controls in place to ensure each disbursement is properly supported by a claim and an original (no photocopies) invoices?		
3) Does the fiscal officer or their designee review and audit supporting documentation to ensure funds are disbursed for only authorized purchases?		
4) Are invoices date stamped before releasing them for departmental approval?		
5) When an invoice is received from a supplier not previously dealt with, are steps taken to verify the supplier actually exists?		



	YES	NO
6) Are claims approved by the governing board prior to payment?		
7) If checks are written prior to the approval of the governing board, does an ordinance exist allowing for such items to be prepaid?		
8) If checks are written prior to the approval of the governing board, does the governing board approve the disbursement at the next regular board meeting?		
9) What procedures exist to document the receipt of goods and services?		
10) Are goods received accurately counted and examined to verify they meet quality standards?		
11) Are checks signed only after all required documentation to support the payment is obtained, evidence that goods or services have been received, proper approvals have been obtained, etc?		
12) Are checks accounted for in numerical order and reconciled to the disbursement ledger?		
13) Are voided checks and documents to support the voided checks retained?		
14) Are checks payable to "Cash" prohibited?		
15) Is access to signature stamps, mechanical check signers or signature plates used to sign checks adequately controlled?		
16) Are all disbursements made by check, except for small payments from petty cash?		
17) Is the signing of checks in advance prohibited?		
18) Are blank check stock kept in a secure location?		
19) Does a responsible individual take monthly physical inventories of blank checks?		
20) Are checks mailed or properly distributed to vendors?		
21) Are signed checks delivered directly to the mail room or postal office, making them inaccessible to persons who requested, prepared or recorded them?		
22) Are signed checks promptly recorded?		
23) Is a reconciliation completed between the claims for payment approved by the governing board and the actual disbursements posted to the ledger?		
24) Is the review of the distribution of charges to various appropriation line items performed by an individual with knowledge and experience to determine the correctness of the distribution?		
25) Are error reports created to identify vendors with the same bank account number or same address?		
26) Is there a separate bank account for payroll?		
27) Is access to disbursement applications appropriately controlled by user logins and passwords?		
28) Did management design the unit's information system and related control activities to ensure the proper handling of disbursements? a. Did management implement control activities through written policies?		
29) Are monthly disbursements compared to prior months to determine reasonableness?		
30) Are there controls in place to ensure duplicate payments are not made?		
31) Are electronic payments properly itemized, authorized, audited by the fiscal officer or their designee and approved by the governing board?		
32) Before electronic payments are submitted for approval, are the amounts reviewed to ensure the dollar amount charged is correct?		
33) Are individuals involved in the disbursement process knowledgeable?		
34) Are investigations made of unusual journal entries?		
35) Are there controls in place to ensure all payments are made on a timely basis and in accordance with all purchase orders and contracts?		
36) Does the purchasing department maintain price lists and other records of price quotes?		
37) Does the purchasing department maintain a record of suppliers who have not met quality or other performance standards?		
38) Are there controls to identify costs and expenditures not allowable under grant programs before payment is made?		
39) Are claims filed against vendors for all shortages or damaged materials?		
40) Are vendor listings reviewed by management to identify unusual vendors or excessive payments to vendors?		
41) Is timely payment of invoices required to avoid late fee charges and to take advantage of available discounts?		
42) Are transactions monitored to ensure all cash discounts are taken and exemptions from sales tax and federal excise?		
43) Are both the accounting and purchasing departments promptly notified of returned purchases?		
44) Are returned purchases matched with vendor credits?		
45) Is a current list of individuals authorized to approve expenditures maintained by the accounting department?		



	YES	NO
46) Are there procedures for immediate notification when authorized individuals leave the unit or are no longer authorized to approve claims?		
47) Contracts:		
a. Are contract programs monitored?		
b. Are the results of monitoring documented?		
c. Does the monitoring ensure that contractors are performing in accordance with the contracts?		
d. Is a comparison made of contract disbursements to approved contract amounts?		
e. Are contract or purchasing officers areas of responsibility rotated on a regular basis?		
f. Is an audit of contractor's costs required prior to approving payment for contracts for materials, services, or facilities acquired?		
g. If change orders are necessary, do they comply with IC 36-1-12-18?		
h. Is the reasonableness of progress payments based on work performed validated and documented?		
i. Are audits of the final costs under cost reimbursement contracts required?		
j. Are contractors' requests for progress payments under long-term contracts compared to the contractor's efforts and results?		
48) Are purchase orders (General Form 98 or Approved Form) used?		
a. Is the original copy of the purchase order given to the vendor at the time of purchase?		
b. Is the duplicate copy filed with the purchasing authority (department purchasing the goods or services)?		
c. Is the triplicate copy filed with the fiscal officer?		
d. Does the person requesting the purchase authorized to do so?		
e. Does the person requesting the purchase indicate on the purchase order the appropriation to be charged?		
f. Does the fiscal officer certify on the original, duplicate and triplicate copies of the purchase order that there is an unobligated balance in the appropriation sufficient to pay the amount of the order?		
g. Does the individual ordering the goods sign the original, duplicate and triplicate copies of the purchase order?		
h. Does the individual receiving the goods certify on the duplicate and triplicate copies of the purchase order that the items have been received in good condition? If not all goods were received or were in poor condition, is this noted on the purchase order?		
i. Does the fiscal officer encumber the amount of the purchase order when the triplicate copy is provided?		
j. Does the purchase order number appear on all invoices and claims OR original order prepared by the vendor?		
k. Are purchase orders issued on bids and contracts delivered within thirty (30) days after acceptance by the governing board? (IC 5-22-18-5)		
l. Does the original purchase order issued to the vendor accompany the bill or invoice and claim to the department before payment is made? If not, is the purchase order number shown on the bill or invoice and accounts payable voucher?		
m. Is an itemized claim covering the purchase filed with the department after delivery is made?		
n. Are purchase orders pre-numbered and accounted for? If purchase orders are not pre-numbered, is there some other control in place to account for purchase orders?		
o. Is a record of open purchase orders maintained?		
p. Are invoice quantities and prices compared to purchase order quantities and prices?		
q. Are monthly reconciliations of outstanding purchase orders to encumbrances performed?		
r. Is recorded encumbrance entries based only on approved purchase orders?		
49) Are requisition forms used when making requisition for supplies or equipment to be purchased or for items provided in the storeroom?		
50) When reviewing travel and other employee reimbursements, are the following procedures performed?		
a. Verify that the reimbursement for travel complied with the approved travel policy.		
b. Verify that the reimbursement for travel and other expenses were not already paid on a credit card or advanced travel payment.		
c. Determine if travel disbursements exceeded the budgeted amount or prior year totals.		
d. Verify the mileage claimed is reasonable.		
e. Determine if expenses claimed were on days the employee did work.		
f. Determine if proper support exists for the reimbursement request.		
g. Determine if there are unusual or excessive reimbursements to one employee.		
h. Are standard detailed expense reports used for employee reimbursements? If yes, are there a supervisors with knowledge of employee activities approving the reports.		



	YES	NO
51) 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 disbursing activities?		
a. How does the unit internally communicate information regarding disbursing activities to employees, including objectives 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 ensure the proper handling of disbursements?		
a. Does management use the most current information available to ensure disbursing activities are working properly?		

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 procedures in place to ensure that appropriate personnel perform their required duties sufficiently and adequately follow the policies and procedures of the governmental unit regarding disbursing activities?		
2) Are internal control procedures over disbursing activities 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 disbursing activities?		
3) Are monthly reports detailing disbursements and appropriations of the funds provided to the appropriate department to review for accuracy and reasonableness?		
4) Are monthly reports detailing disbursements and appropriations of the funds provided to management to review for accuracy and reasonableness?		
5) Are monthly reports of disbursements and appropriations of the funds provided to the governing board to review?		
6) Does a confidential reporting system exist so that individuals may report suspected fraud and abuse of the unit's policies?		
7) Is there a comparison by the appropriate level of management or another designated individual of actual disbursements to budgeted and prior disbursements? If yes, are investigations performed for all variances noted?		