

UNDERSTANDING THE DESIGN AND IMPLEMENTATION OF
INTERNAL CONTROLS – ENTITY LEVEL
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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 financial statements are 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 correct financial statements 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 financial statements?

2. Internal communication:

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

b. How does the governmental unit internally communicate information to employees, including objectives and responsibilities for internal control?

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3. External communication:

- 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 are the procedures to ensure that appropriate personnel perform their required duties sufficiently and in a timely manner and follow the policies and procedures of the governmental unit?

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)?

IT ENVIRONMENT AND GENERAL COMPUTER CONTROLS

1. IT Environment:

- a. What procedures does the computer perform (record transactions, reconciliations, produce checks and receipts, etc.)?

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- b. What data is stored in electronic files? Is a backup kept off site?
 - c. Does the governmental unit utilize service organizations, such as for payroll, meter reading, utility electronic payment, etc.?
 - d. Are any significant spreadsheets utilized for accounting functions or transaction processing?
 - e. Does the system identify when changes are made and who made changes?
2. General Computer Controls:
- a. Are computers physically secured (passwords)? Is there restricted access to certain programs and data?
 - b. How does the governmental unit determine when updates to the systems need to be performed?
 - c. Are spreadsheets protected so that the integrity of the data is not compromised (password protection, locked cells, etc.)? If so, how?

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d. Are unique logins assigned to different users of computers/software? Is restricted access given to certain individuals?

3. IT-related risks:

a. How does the entity identify IT-related risks? If IT risks are identified, how does the unit respond?

SAMPLE