

Examples of Internal Control Procedures

- New employees receive training on internal controls and employee policies.
 - New software requires a reevaluation of policies and procedures to determine if existing controls will continue to be effective and if new controls need to be designed and implemented. (Procedures that worked well under a manual or a previous software system may no longer be applicable under the new system).
 - A change in reporting requires a review of internal controls over the compilation of the report.
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Component Three: Control Activities

Once risks are identified and assessed, management develops control activities to minimize the risks. Control activities detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. However, in very small governmental units, such segregation may not be practical. In this case, compensating activities should be implemented which may include additional levels of review for key operational processes, random and/or periodic review of selected transactions. In smaller units, these reviews and testing of processes might be performed by governing boards or other elected officials.

Principle 10. Management designs control activities to achieve objectives and respond to risks.

Management tailors control activities to the functions of the political subdivision and documents the required procedures. The following examples of control activities are categorized by transaction type; the list is not all inclusive and would not necessarily comprise a complete internal control system.

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14. Unclaimed payroll checks/stubs are returned to an individual other than those involved with the payroll process.
15. Employees are cross-trained on the payroll process; those assigned to payroll take mandatory vacations.

B. Disbursement Activities

1. The responsibility for approving claims is segregated from those preparing the claims.
2. Checks are written by an individual other than the one approving the claim.
3. Checks are signed by an individual other than the one preparing them.
4. Claims for payment are reviewed and approved by the governing body prior to payment.
5. A reconciliation is completed between the claims for payment approved by the board and the actual disbursements posted to the ledger.
6. The responsibility for acknowledging the receipt of goods or services is segregated from those preparing claims and writing checks.
7. Vendor checks are accounted for in numerical order and reconciled to the disbursement ledger.
8. Invoices or other receipts are attached to each claim to support the disbursement.
9. A review is completed by an individual outside the disbursement process in which the claim amount is compared to the supporting documentation attached to the claim and the amount of the check.
10. Access to disbursement applications is appropriately controlled by user logins and passwords.

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2. A reconciliation between the receipts ledger and the credits to the bank account is completed periodically by an individual separate of the receipting process.
3. A reconciliation between the disbursement ledger and the debits to the bank account is completed periodically by an individual separate of the disbursement process.
4. The monthly reconciliation between the cash balance and the bank balance is thoroughly reviewed and approved by the governing body.
5. Disbursements from and reimbursements to petty cash funds are periodically reviewed by an individual other than the one responsible for maintaining the petty cash fund.

E. Credit Cards Transactions

1. A designated official or employee oversees the issuance and use of the credit cards.
2. An ordinance or resolution specifically states the purposes for which the credit card may be used.
3. The designated official or employee collects the credit card when the purpose for which the credit card has been issued has been accomplished.
4. The designated responsible official or employee maintains an accounting system or log which includes the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, sufficient documentation provided, etc.
5. A designated person separate from disbursement process reviews transactions listed on the credit card statements for sufficient documentation and inclusion in claim to the Board.

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unauthorized use to avoid the recording of unauthorized transactions or unauthorized changes to existing data. Also, safeguards must be established to prevent loss of data in the event of a failure of the IT system. In view of these risks, the following steps may be considered as part of the internal control system:

- Limiting the authority to access different components of the software to employees with duties specifically related to that component.
- Prohibiting User ID and password sharing between employees.
- Restricting the authority to correct or make adjustments to the records on the system to key employees or management.
- Requiring the use of prescribed forms or the approval of alternative forms.

All of these considerations, both the benefits and risks, must be weighed by the governmental entity when deciding whether or not to make the IT system a part of the internal control structure.

Principle 12. Management implements control activities through policies.

Management establishes policies in sufficient detail to address all identified risks. Procedures are communicated in writing to all employees that are part of the financial or reporting process. Policies set out the expectations of the oversight body and management and procedures specify the specific actions needed to comply with the policy. For example, a travel policy may require out-of-state travel to be approved in advance. The procedures outline the steps to obtain and document the approval for the claim process. In addition, management may consider the following:

- The employee handbook is provided online or in hard copy and includes internal control.
- Internal control procedures are written and available to all employees.