Accounting System Checklist
Internal Controls

As public servants, it is our responsibility to utilize the taxpayer's dollars in the most effective and efficient way possible while adhering to laws and regulations governing those processes. Internal controls over the accounting system are necessary to ensure timely and accurate financial reporting so managers can make appropriate decisions and annual financial reports to taxpayers are correctly stated.

This document does not address all possible circumstances that need to be considered when establishing internal controls or assessing risk. Each entity is responsible for reviewing their business practices and processes to determine where risks exist and where and how controls can be established to mitigate them.

Examples of the results of those controls are to support that:

- All revenues/expenditures are sufficiently documented, accurately and completely recorded, charged to the proper accounting period (fiscal year) and properly classified as to category of revenue/expense.
- Accounts payable are properly classified by type (due to other funds, due to other governmental agencies, etc.). If year-end accrual entries involve accounting estimates, the estimates are reasonable and sufficiently documented.
- Segregation of duties or mitigating controls exists between transaction processing, authorization, custody, and the recording functions.

Control Objectives:

Segregation of duties, or mitigating controls, exists within transaction processing authorization, custody, and recording functions.

1. Segregation of duties exists between the various types of transaction processing, e.g. procurement, accounts payable, disbursements.
2. Transactions and events are recorded in the proper accounts.
3. Accountability for refunds and credits are maintained.
4. Accounting records are protected from theft, obsolescence, or destruction.
5. All transactions and events that should have been recorded have been recorded.
6. Transactions and events have been recorded in the correct accounting period.

Segregation of Duties:

Segregation of duties is one of the most important features of an internal control plan. Its fundamental premise is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. These are called incompatible duties when performed by the same individual. Examples of incompatible duties include situations where the same individual (or small group of people) is responsible for:

- Managing both the operation of and record keeping for the same activity.
- Managing custodial activities and record keeping for the same assets.
- Authorizing transactions and managing the custody or disposal of the related assets or records.

There are four kinds of functional responsibilities that should be performed by different work units or, at a minimum, by different persons within the same unit:

1. Authorization to execute transactions: This duty belongs to persons with authority and responsibility to initiate and execute transactions.
2. Recording transactions: This duty refers to the accounting or record keeping function, which in most organizations, is accomplished by entering data into a computer system.
3. Custody of assets involved in the transactions: This duty refers to the actual physical possession or effective physical control/safekeeping of property.

4. Periodic reviews and reconciliation of existing assets to recorded amounts: This duty refers to making comparisons at regular intervals and taking action to resolve differences.

The advantage derived from proper segregation of duties is twofold:

- Fraud is more difficult to commit because it would generally require collusion of two or more persons, and most people hesitate to seek the help of others to conduct wrongful acts.
- By handling different aspects of the transaction, innocent errors are more likely to be found and flagged for correction.

At a minimum, the following are examples of activities that should be segregated:

- Individuals responsible for data entry of encumbrances and payment vouchers should not be responsible for approving these documents.
- A department should not delegate expenditure transaction approval to the immediate supervisor of data entry staff or to data entry personnel. Individuals approving expenditure transactions should not supervise data entry staff.
- Delegated expenditure authority must be in writing and approved by the appointing authority.
- Individuals responsible for acknowledging the receipt of goods or services should not be responsible for purchasing or accounts payable activities.
- Individuals who prepare/record checks should not sign the checks.
- Individuals who prepare/record checks should not reconcile the checking account.
- Individuals responsible for cash receipts functions should be separate from those responsible for cash disbursements.
- Individuals responsible for billing for services and fees should be separate from those for collection and accounting.
- Mail potentially containing receipts should be opened by two people and distributed by an individual other than accounting personnel.

Example Segregation of Duties Controls Questions:

A.	**Segregation of Duties**	**Yes**	**No**	**N/A**	**Comments**
Is the general accounting/general ledger/journal entry function segregated from:					
1.	custody and control over cash?				
2.	custody and control over securities?				
3.	custody and control over inventory?				
Are personnel performing the general accounting/general ledger/journal entry function segregated from those performing the detail recording functions for:					
4.	accounts receivable?				
5.	accounts payable?				
6.	purchasing?				

Example Procedural Controls Questions:

A.	Accounting Processes	Yes	No	N/A	Comments
1.	Does the entity have a procedure to analyze account balances to ensure transactions have been properly recorded?				
2.	Is this procedure followed?				
3.	Does the entity maintain an accounting manual which is accessible to all appropriate employees?				
4.	Are updates/changes to the accounting manuals distributed timely to appropriate personnel?				
5.	Does the entity have documented accounting processes for all significant account balances and classes of transactions?				
6.	Is a separate process defined and documented for adjustments to the records (journal entries)?				
7.	Do all journal entries include identification of the accounts in which they are to be recorded?				
8.	Are accounting transactions recorded in a timely manner in order to accurately reflect the entity's financial position at any point in time?				
9.	Is a double entry system in use that includes a general ledger and subsidiary ledgers?				
10.	Are the subsidiary ledgers balanced to the general ledger monthly?				
11.	Does a complete and current chart of accounts exist that includes descriptions of items posted to each account?				
Do the accounting procedures, chart of accounts, etc. provide for a means to:					
12.	identify revenues, expenditures and balances of federal and state program funds separately for each grant/contract?				
13.	classify federal/state program revenues/receipts by source, grant and project properly?				
14.	classify federal/state program expenditures/disbursements by grant, project and activity properly?				
15.	accumulate and record grant expenditures/disbursements as shown in the federal/state grant budget?				
16.	Does the entity reconcile any sub-system records in a timely manner?				
17.	When discrepancies are identified in reconciliation of sub-systems, does the entity document and resolve the differences in a timely manner?				

B.	Custody	Yes	No	N/A	Comments
1.	Is access to accounting records limited to employees with designated responsibility for such records?				
2.	Are there physical safeguards maintained over accounting records, e.g., books of original entry, and the general ledger?				
3.	Are all accounting records, including the supporting documents, retained in compliance with the entity's records retention policy?				
4.	If a records retention policy does not exist, are the accounting records, including the supporting documents, retained and stored for a sufficient amount of time to meet federal and state audit requirements?				
5.	Does the entity have a documented procedure to ensure electronic records are properly backed-up in a timely manner?				
6.	Are these backed up files stored at another location?				
7.	Do you have a disaster recovery plan that addresses both electronic documents and hard copy documents?				
8.	Are the accounting records for federal and state grants separately maintained in grant files or referenced appropriately to provide a clear audit trail for federal and state grants?				