

System Interfaces with the State Accounting System Checklist

Internal Controls

Introduction

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. There are many reasons for placing controls at various points in these processes that may appear bureaucratic, but are necessary to ensure compliance and accountability.

Control Objectives:

1. Controls are in place in the process to ensure accountability is established as early as possible and at all points along the accountability chain.
2. Controls are in place in the process to ensure security for all interfacing systems and compatibility with the state accounting system.
3. Controls are in place in the process to ensure compliance with state and federal laws, regulations, and policies and procedures.
4. Controls are in place in the process to ensure all system interfaces with the state accounting system are properly approved by the agency and the comptroller's office.

Segregation of Duties:

Segregation of duties is one of the most important features of an internal control plan. The fundamental premise of segregated duties 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.

Stated differently, 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 (approval): This duty belongs to persons with authority and responsibility to initiate and execute transactions.
2. Recording transactions (entry): 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:

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

Ideally, the following activities should be segregated:

- Individuals responsible for data entry of payment transactions should not be responsible for approving these documents.
- An agency should not delegate expenditure or other transaction approval to data entry personnel or to the immediate supervisor of data entry staff when they also have the ability to enter transactions. Individuals approving expenditure or other transactions should not supervise data entry staff. In the state accounting system, a compensating control for this weakness is that no one can both enter and approve the same transaction.
- 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 payments should not approve the payments.
- Individuals who prepare/record payments should not perform budget compliance and review.
- Individuals responsible for cash receipts functions should be separate from those responsible for cash disbursements.

Please list below every system the agency operates that interfaces with the state accounting system:

	<u>Name of Interfacing System at Agency</u>	<u>Date of Approval Letter</u>
1.	_____	_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____
6.	_____	_____

Internal Control Questions:

		Yes	No	N/A	Comments
1.	Is the above list of agency-operated systems that interface with the state accounting system complete and accurate?				
	For each system listed above, has the agency:				
2.	Completed a state accounting system interface request / approval form?				
3.	Received, and does the agency still have in its possession, a formal letter of approval from the comptroller's office?				
	For each system listed above, does the agency have procedures to:				
4.	Perform a point-in-time reconciliation of the interfacing system's record counts and dollar amounts to the state accounting system on at least a quarterly basis?				
5.	Handle transactions or documents rejected by the state accounting system?				
6.	Ensure each document/transaction is approved either after they are loaded into the state accounting system or before the interface file for the state accounting system is generated by applying document approvals in the agency's interfacing system?				

7.	Ensure proper segregation of duties for those who enter and approve the transactions? [See Segregation of Duties discussion on the first page of this ICQ.]				
8.	Perform due diligence to ensure coding blocks are updated annually for fiscal year changes and/or to accommodate successful billings?				
9.	Ensure payments/transactions are made on a timely basis?				
10.	Ensure payments/transactions are made in accordance with all applicable federal and state laws, regulations, and policies and procedures?				
11.	Ensure transactions are posted to the accounting system in the appropriate fiscal year?				
12.	If the agency makes system changes, accounting code changes, or technical changes associated with sending the files, then does the agency send the interface files to quality assurance for testing/retesting?				
13.	Does the agency complete an updated, state accounting system request / approval every time the interface file changes to process different document codes?				
14.	Does the agency get formal written approval from the comptroller's office prior to purchasing or implementing an accounting system of any kind?				
15.	Does the agency have a formal disaster recovery plan that includes the system interfaces with the state accounting system, and does the agency perform periodic disaster recovery exercises?				
16.	Does the agency update its own interface system security profile(s) at least annually and whenever there is a change in an employee's specific work assignment?				
17.	Are the agency's profiles specific and restrictive, and do the profiles prohibit employees from both entering and approving the same transaction?				