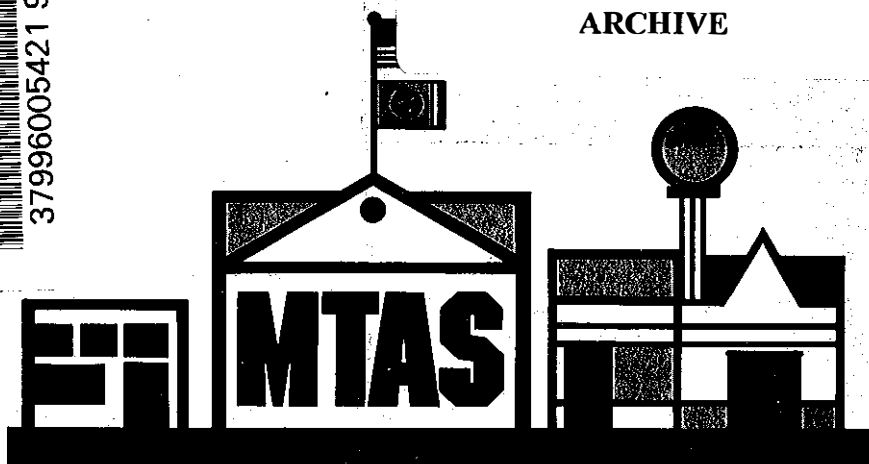




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Municipal Technical Report

INTERNAL CONTROL AND
FISCAL COMPLIANCE QUESTIONNAIRE
FOR
MUNICIPALITIES IN TENNESSEE

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Good business practices demand that an adequate system of internal control be implemented and maintained. In addition to protecting public funds, a good system is designed to protect the employee who sometimes is placed in a precarious position of handling public funds.

A major audit procedure is evaluating the city's internal control system. It should be noted that small cities with few employees are not able to maintain an elaborate system. However, each city should maintain the system necessary to protect the public funds and its personnel.

The following questionnaire was designed by the State Comptroller's Office and is used by your independent auditor in evaluating the city's system each year. It is recommended that city personnel use the questionnaire to conduct a self-evaluation at various times during the year to help improve internal control and reduce audit exceptions.

This questionnaire should be viewed also as a management tool. The problems that can result from failure to monitor financial conditions are too well documented to require elaboration here. Although the use of this questionnaire will require some work and self-discipline on the part of the city, the effort will be well worth it. Once established, a system of internal control will make the city officials' job much easier and more productive.

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
Summary Sheet	1
General Accounting and General Statutory Provisions	3
Cash on Hand	5
Cash in Banks, Savings and Loans	6
Cash Disbursements	7
Cash Receipts and Revenues, Other Than Taxes	9
Taxes Assessed, Levied, Collected and Uncollected	10
Investments	11
Inventories of Materials, Supplies	12
Property and Equipment	14
Interfund, Intergovernmental Transfers or Loans	15
Accounts Payable, Expenditures and Encumbrances	16
Purchasing and Contracting	17
Payrolls	18
Other Current Liabilities	19
Bonds Payable	19
Surety Bonds and Insurance	20

INTERNAL CONTROL AND COMPLIANCE QUESTIONNAIRE

SUMMARY SHEET

"Yes" answers indicate satisfactory condition

"N/A" means not applicable

"No" answers indicate weakness in internal control
or statutory noncompliance

For "Remarks" use extra sheets for details

SUMMARY OF WEAKNESSES OR NONCOMPLIANCE

	<u>Evaluation*</u>
General Accounting and General Statutory Provisions	_____
Cash on Hand	_____
Cash in Banks	_____
Cash Disbursements	_____
Cash Receipts and Revenues, Other than Taxes	_____
Taxes Assessed, Levied, Collected and Uncollected	_____
Investments	_____
Inventories of Materials and Supplies	_____
Property and Equipment	_____
Interfund and Intergovernmental Transfers or Loans	_____
Accounts Payable, Expenditures Encumbrances	_____

Evaluation*

Purchasing and Contracting _____
Payrolls _____
Other Current Liabilities _____
Bonds Payable _____
Surety Bonds and Insurance _____

Signature _____ Date _____
(Prepared by)

*This evaluation should be the overall rating for each of the 16 major areas of financial responsibility.

INTERNAL CONTROL AND COMPLIANCE QUESTIONNAIRE

GENERAL ACCOUNTING AND

GENERAL STATUTORY PROVISIONS Yes N/A No Remarks

1. Is there an organization chart clearly defining lines of authority and responsibility? If not, are such line clearly established? _____
2. Is a chart of accounts in use that conforms generally to the standards of the National Committee on Governmental Accounting? _____
3. Are all transactions of major importance approved in minutes of the governing body? _____
4. Are all minutes of the governing body in final form in the permanent records of the governmental unit and properly signed? _____
5. Are all control accounts balanced with details monthly or periodically? If yes, but not monthly, indicate how often? _____
6. Does the recorder, clerk, or treasurer (and all other officials controlling governmental funds) keep such governmental funds and collections separate and distinct from his/her own money and/or from any other monies which might be in her/his possession (e.g. Employee Credit Union, etc.)? _____
7. Is the treasurer custodian of all governmental funds except those required to be under control of another official (clerk of court, tax collector, etc.)? _____

GENERAL ACCOUNTING AND GENERAL
STATUTORY PROVISIONS (Cont.)

Yes N/A No Remarks

8. Did you find records of elected and appointed officials free from evidence of conflict of interest? _____

9. Fund Accounting:

A. Is a classification of revenue by source developed through a double-entry bookkeeping system? _____

B. Is revenue credited to the proper fund as designated by statutes? _____

C. Are special requirements of revenue bonds requiring segregation of revenue or cash among separate funds or accounts being observed? _____

10. Are all employees required to take annual vacations (of uninterrupted periods preferably) and is their work performed by other employees to the extent possible during their absence? _____

11. Are the requirements for reporting revenues on a cash basis (Section 9-1101, Tennessee Code Annotated) being observed for general governmental funds? _____

CASH ON HAND

Yes N/A No Remarks

1. Are petty cash funds at the minimum effective amount? _____

2. Are all petty cash funds maintained on an imprest basis? _____

3. Is one responsible individual designated as custodian of each fund and is access limited to that individual? _____

4. Are unauthorized advances from petty cash funds to employees prohibited and was there no evidence of violations during the audit period? _____

5. Is the cashing of checks from petty cash funds controlled to prevent this as a method of unauthorized borrowing? _____

6. Are all checks cashed promptly at the banks? _____

7. Are petty cash vouchers or bills required for all petty cash disbursements and are they pre-numbered? _____

A. Are they signed by persons receiving cash? _____

B. Are they approved in writing by department head or other responsible official? _____

8. Are such vouchers effectively cancelled at the time of reimbursement of the fund by an individual other than custodian? _____

CASH ON HAND (Cont.)

Yes N/A No Remarks

9. Is effective control maintained of said petty cash vouchers showing account distribution, date of reimbursement, check number, and signature of person approving reimbursement? _____

10. Is there a definite (preferably written) policy for requesting travel advances, reporting travel expenses, and reimbursing the unit for unexpended advances? _____

11. Are travel advances approved by department heads and effectively controlled? _____

12. Is an adequate accounting of actual expenses required subsequently for all travel advances? _____

CASH IN BANKS & SAVINGS AND LOAN ASSOCIATIONS

1. Have depositories been authorized by the governing body? _____

2. Are all funds on deposit and investments in certificates of deposit, etc., secured by collateral held in escrow by the depository? _____

3. Is authorization to sign checks on the various accounts approved by the governing body? _____

4. Are the records of the depository banks up to date as to such authorization? _____

5. Are all bank accounts reconciled monthly? _____

CASH IN BANKS AND SAVINGS
& LOAN ASSOCIATIONS (Cont.)

Yes N/A No Remarks

6. Are all bank accounts reconciled by someone other than employees who participate in the receipt or disbursement of cash? _____

CASH DISBURSEMENTS

1. Are pre-numbered checks used for all disbursements? _____

2. Is the supply of unused checks adequately controlled and safeguarded? _____

3. Are all voided checks accounted for and effectively cancelled? _____

4. Are all paid invoices and vouchers effectively stamped or controlled to avoid reuse? _____

5. Is payment of duplicate invoices or statements prohibited, or are there other effective controls to prevent duplicate payments? Describe others. _____

6. Are discounts taken as allowed? Did the audit tests indicate no laxity in this regard? _____

7. Is the practice of signing blank checks in advance prohibited? _____

8. Is the practice of making checks to order of "Cash" prohibited? _____

9. Is a check protector used? _____

10. Were all checks written before the end of the fiscal year actually distributed to the payees? (That is, were no checks being held in governmental offices for any reasons?) _____

CASH DISBURSEMENTS (Cont.)Yes N/A No Remarks

11. Were all checks noted during the examination signed by authorized personnel? _____

12. Were authorized personnel confirmed with the depositories' signature cards and found to be in agreement with records and resolutions of the governmental units? _____

13. Are receiving reports required for all material and supply purchases and approval of department heads or officials for payment of all bills or claims? _____

14. Have all disbursements been approved for payment by the properly designated official? _____

15. Has an additional signature of an official or employee who does not have access to the accounting records been required on at least disbursements over a minimum amount? _____

16. If facsimile signatures are used, are they adequately controlled? (Obtain specific information as to the exact individuals who have control of or access to keys and signature plates, noting particularly the use of plates with two signatures.) _____

17. Is effective control maintained over mailing or distribution of checks after they are signed? _____

18. Are expense reports in adequate form, properly supported and approved? _____

CASH RECEIPTS AND REVENUES,
OTHER THAN TAXESYes N/A No Remarks

1. Is control of cash receipts established at earliest possible moment? _____

2. Is cash receiving function centralized to maximum extent? _____

3. Are cash receipts deposited intact as often as required by Section 9-1101, Tennessee Code Annotated? _____

4. Does the collector or collection department prepare daily cash reports in which receipts are appropriately classified? _____

5. Is a system of pre-numbered receipts, with adequately controlled copies, in use where practical? _____

6. Are receipts issued for all monies received and are numbers of all receipts accounted for? _____

7. Are licenses and permits issued from pre-numbered stubforms? _____

8. Is there segregation of duties, to the extent possible, as to:

A. Collections _____

B. Billing _____

C. Receivable records
(Does someone other than
cashier make deposits?) _____

9. Are deposits tested to records by someone other than cashier and depositor? _____

10. Are there proper controls with depositories to prohibit cashing of any check payable to the governmental unit? _____

CASH RECEIPTS AND REVENUES,
OTHER THAN TAXES (Cont.)

Yes N/A No Remarks

11. Are checks identified on deposit slip by maker and amount? _____

12. Was there an effective cut-off of cash receipts as of the end of the fiscal year? _____

13. Have there been amendments of the budget before expenditure of any unbudgeted school receipts from sale of property or other source? _____

TAXES ASSESSED, LEVIED, COLLECTED, AND UNCOLLECTED

1. Is there a clear separation of duties between the tax assessor and the tax collector? If not, are there alternative controls over tax rolls and receipts which provide effective independent control? Describe. _____

2. Has the tax collector been made accountable for current year taxes based on total assessments at rate of levy authorized by governing body? _____

3. Were the total tax bills for the current year reconciled with the total accountability of the tax collector as determined above? _____

4. Have all releases, rebates, refunds, and taxes charged off been authorized in the minutes of governing body? _____

5. Are late listings adequately controlled and prescribed penalties applied? _____

6. Are taxes receivable reconciled periodically? How often? _____

TAXES ASSESSED, LEVIED, COLLECTED,
AND UNCOLLECTED (Cont.)

Yes N/A No Remarks

7. Are all collections of current and delinquent taxes deposited or turned over to the treasurer intact? _____

8. Are taxes collected in advance segregated from current collections, excluded from current revenues, and effectively controlled? _____

INVESTMENTS

1. Are all investment transactions authorized in minutes of the governing body? _____

2. Who has custody of investments? If held by municipal officers, are they adequately protected, preferably in safe deposit boxes? _____

3. Does access to investments require the presence of two officials, both of whom are independent of recordkeeping? _____

4. Is a record maintained of each security, reflecting all pertinent information as to principal and interest? _____

5. Is a system in effect to insure that all interest earned is collected and credited to the fund which earns it? _____

6. What is the basis of valuation of investments?
A. Are current values of investments not significantly less than book values? _____

B. If current values are significantly less than book values, has provision for loss been recorded or has adequate disclosure been made? _____

INVENTORIES OF MATERIALS
AND SUPPLIES

Yes N/A No Remarks

1. Does the governmental unit inventory and control in its general ledger all major classes of materials and supplies that would ordinarily be controlled by inventories in commercial and industrial businesses with similar quantities? _____

2. Is a perpetual inventory system in effect as to all major classes of items? _____

3. Is the perpetual inventory balanced against the general ledger controls periodically (at least annually)? _____

4. Are all classes of inventory items physically counted periodically (at least annually)? _____

A. Were such physical counts:

(1) In accordance with written instructions or adequately planned verbal instructions? _____

(2) Adequately supervised? _____

(3) Made by employees independent of the department being inventoried? _____

(4) Test-checked by different employees? _____

(5) Recorded on permanent inventory count sheets? _____

B. Were the inventory count sheets signed and dated by the person supervising the count? _____

INVENTORIES OF MATERIALS
AND SUPPLIES (Cont.)

Yes N/A No Remarks

C. Were adequate provisions made for cut-off of receipts and issues? _____

D. Were the perpetual records adjusted to the actual inventory quantities per physical counts? _____

E. Were such adjustments approved by the responsible official? _____

5. Is there definite responsibility for all inventory classes? _____

6. Are goods adequately safeguarded against loss or theft by being kept in locked buildings, rooms, or areas? _____

7. Is access granted only to authorized personnel? _____

8. Are goods protected against physical deterioration? _____

9. Is there an adequate system of requisitions for issuing stores? _____

A. Is audit copy file maintained by requisitioner? _____

B. Is the inventory entry copy of the requisition tested to the requisitioner's copy departmentally? _____

10. Are such requisitions approved by head or responsible official of department initiating requisition? _____

11. Has adequate provision been made for obsolete and inactive items in inventories? _____

INVENTORIES OF MATERIALS
AND SUPPLIES (Cont.)

Yes N/A No Remarks

12. Is there a realistic system or method for maintaining optimum quantities of various items in inventory at all times? _____

13. Is a periodic report made to the governing body, or to the city or county manager, of obsolete and overstocked items? _____

14. Are all inventory items necessary for operations of the governmental unit? _____

PROPERTY AND EQUIPMENT

1. Are records maintained which are adequately classified and adequately identify individual items? _____

2. Has there been a physical inventory of equipment? When was the last inventory taken? _____

3. Are such inventories taken on a periodic basis? _____

4. In whose name are the titles of sites, buildings, vehicles, and other properties and equipment held? Were no exceptions to authorized procedures noted? _____

5. Are all items of property and equipment reasonably safeguarded from loss due to fire, theft, or misplacement? _____

6. Are individual items of equipment identified by tax or numbers? _____

7. Is accountability for sales, scrapping, obsolescence, etc., satisfactory? Was such disposition properly authorized? _____

PROPERTY AND EQUIPMENT (Cont.) Yes N/A No Remarks

8. Is there adequate control of disposals for relieving property records? _____

9. Is provision made for maintaining adequate insurance coverage? _____

10. Is such insurance coverage independently reviewed periodically? _____

11. Are deeds on hand and properly recorded for all real properties? _____

12. In case of acquisition of personal property:

A. Were items purchased necessary for business purposes? _____

B. Have they been used exclusively for purposes indicated? _____

C. Have they been maintained in good condition? _____

13. Are sales of surplus property in accordance with legal requirements? _____

INTERFUND AND INTERGOVERNMENTAL TRANSFERS OR LOANS

1. Are transfers or loans between funds authorized by law? _____

2. Was each interfund transaction authorized by the governing body in an ordinance or resolution? _____

3. With respect to interfund loans, did the authorization make provision for method and time of repayment? _____

INTERFUND AND INTERGOVERNMENTALTRANSFERS OR LOANS (Cont.)

Yes N/A No Remarks

4. Are transfers between funds in accordance with sound accounting principles and have they been correctly recorded in each fund involved? _____

5. Are all receivables shown from other governmental units actually due at balance sheet date and do they represent current obligations to make payment? _____

6. Are all liabilities, if any, to other governmental units properly recorded in the accounts at the balance sheet date? _____

ACCOUNTS PAYABLE, EXPENDITURES, AND ENCUMBRANCES

1. Does the governmental unit prepare and use a budget appropriation ordinance as a primary guide for controlling expenditures? _____

2. Have budget appropriations for current year been recorded in the appropriation expenditures accounts? _____

A. If so, when is this charge made:

(1) At the time the purchase order is issued? _____

(2) At the time the liability is incurred? _____

(3) At the time of payment? _____

B. If not, what assurance is there that appropriation limitations have not been exceeded? _____

ACCOUNTS PAYABLE, EXPENDITURES,AND ENCUMBRANCES (Cont.)

Yes N/A No Remarks

4. Was there effective cut-off of liabilities at the end of the fiscal year? _____

5. Is the accounts or vouchers payable ledger reconciled to the general ledger periodically, preferably monthly? _____

6. Are adjustments of recorded accounts payable required to be supported by proper approval? _____

7. Are debit balances in accounts payable properly reviewed and followed-up? _____

PURCHASING AND CONTRACTING

1. Are prenumbered purchase orders used? _____

2. Are purchase orders required for all purchases? _____

3. Are all duties in connection with approval of invoices or vouchers for payment independent of the purchasing department or the purchasing agent? _____

4. Is an open file of outstanding purchase orders maintained? _____

5. Is effective control maintained on goods and services purchased to insure: _____

A. They are received? _____

B. They are at reasonable and most economical cost? _____

INTERFUND AND INTERGOVERNMENTALTRANSFERS OR LOANS (Cont.)

Yes N/A No Remarks

4. Are transfers between funds in accordance with sound accounting principles and have they been correctly recorded in each fund involved? _____

5. Are all receivables shown from other governmental units actually due at balance sheet date and do they represent current obligations to make payment? _____

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B. If not, what assurance is there that appropriation limitations have not been exceeded? _____

ACCOUNTS PAYABLE, EXPENDITURES,
AND ENCUMBRANCES (Cont.)

Yes N/A No Remarks

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A. They are received? _____

B. They are at reasonable and most economical cost? _____

PURCHASING,
CONTRACTING (Cont.)

Yes N/A No Remarks

C. Were actually required for efficient operations and were effectively used? _____

6. Are all departmental purchases requisitioned or approved in advance by the department head? _____

7. Are department heads furnished with summaries of itemized expenditures and comparison of actual expenditures with budget estimates for management responsibility? _____

8. Were all contracts that required public bids awarded as prescribed by statutes? _____

PAYROLLS

1. Does the unit follow the practice of having proper written authorizations on file for:

A. New employees? _____

B. Salary or wage changes? _____

C. Terminations? _____

2. Is a separate payroll account maintained on the imprest system? _____

3. Are the mechanics of preparing payrolls re-checked, at least on a test basis? _____

4. Are payroll checks or warrants distributed by a person who had no part in payroll preparation? _____

PAYROLLS (Cont.)

Yes N/A No Remarks

5. Are persons distributing payroll checks rotated from time to time or are surprise payoffs made by an independent individual? _____

6. Are time cards:

A. Used when practical? _____

B. Initialed by an authorized person for changes? _____

C. Approved by supervisor? _____

D. Checked for computation of hours? _____

OTHER CURRENT LIABILITIES

1. Are all contracts approved by the governing body? _____

2. Is a detailed record of outstanding contracts maintained? _____

3. Are all deposits held by the governmental unit adequately controlled? _____

BONDS PAYABLE

1. Do the minutes of the governing body approve the bond issue and authorize a bond election when required by statutes? _____

2. Does the publication of the notice of bond election agree with the purposes and restrictions contained in the board minutes? _____

3. Are the proceeds from the sale of bonds used in accordance with the stated purpose of the issue? _____

BONDS PAYABLE (Cont.)Yes N/A No Remarks

4. Are separate bank accounts and accounting records maintained for each bond issue if required by the bond resolution? _____

5. If there are revenue bonds outstanding, are the debt service requirements according to the bond resolution being fully complied with? _____

SURETY BONDS AND INSURANCE

1. Are all employees handling public money adequately bonded? _____

2. Are the surety bonds in accordance with statutory provisions and as authorized by the governing authority? _____

3. Have no unreported violations of the bonds been observed during the examination? _____

4. Is a complete schedule of insurance coverage and limits maintained, showing expiration dates, premiums, co-insurance clauses, and other essential information? _____

5. Is the governmental unit's insurance coverage adequate as to the various types of coverage? _____

6. If not, is the unit intentionally a self-insurer? _____

7. Are insurance coverage and costs periodically reviewed by officials independent of the responsibility for placing coverage? _____

8. Is independent professional advice on insurance coverage and form utilized? _____

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