INTERNAL CONTROL REVIEW QUESTIONNAIRE AND DOCUMENTATION GUIDE

This handout provides a checklist that the auditor may use in his or her review of your organization. As a practical exercise, the very best way to prepare for an audit is to first know what the auditor will be looking for.

The material that follows was designed to aid the auditor in reviewing internal controls. It consists of controls and suggestions for items that should be documented in the work-papers. The documentation items are in parentheses following certain questions. For the most part, the suggested documentation items have been recommended because auditors may wish to verify the related control aspects or procedures in the internal control-testing phase.

The questionnaire and documentation material does not purport to cover all aspects of internal control present at a particular organization. The material is designed to provide basic coverage, and the auditor will select those questions and documentation procedures most applicable to the system of internal control being audited.

The questionnaire should be retained in the work-papers. The auditor may choose to use this material only as a checklist and to document the review through memorandums, analysis papers, and flow charts. As you review the questions, discuss how your organization stacks up.

General

The following questions relate to the internal accounting controls of the overall organization.

1. Are duties for key employees of the organization defined?
2. Is there an organization chart, which sets forth the actual lines of responsibility?
3. Are written procedures maintained covering the recording of transactions?
   a. Covering an accounting manual?
b. Covering a chart of accounts?

4. Do the procedures, chart of accounts, etc., provide for identifying receipts and expenditures of program funds separately for each grant?

5. Does the accounting system provide for accumulating and recording expenditures by grant and cost category shown in the approved budget?

6. Does the organization maintain a policy manual covering

   a. Are subsidiary records for accounts payable, accounts receivable, etc., balanced with control accounts on a regular basis? (List the types of records and the timing of reconciliation procedures.)

   b. Are journal entries approved and explained or supported?

   c. Do accrual accounts provide adequate control over income and expense?

   d. Are accounting records and valuables secured in limited-access areas?

7. Are duties separated so that no one individual has complete authority over an entire financial transaction? (Document the segregation of duties or lack thereof affecting accounting system applications.)

8. Does the organization use an operating budget to control funds by activity?

9. Are there controls to prevent expenditure of funds in excess of approved, budgeted amounts? For example, are purchase requisitions reviewed against remaining amount in budget category?

10. Has any aspect of the organization's activities been audited within the past 2 years by another governmental agency or independent public accountant?¹

¹Pertinent prior audit reports, together with the organization's replies to audit comments, should be reviewed in connection with the current examination. The current work-papers should indicate key findings from this review.
11. Has the organization obtained fidelity bond coverage for responsible officials?  
   (Indicate the officials covered and the amounts of coverage.)

12. Has the organization obtained fidelity bond coverage in the amounts required by 
   statutes of organization policy?

13. Are grant financial reports prepared for required accounting periods within the 
   time imposed by the agencies?  (Indicate the types of reports and the due dates.)

14. Does the organization have an indirect cost allocation plan or a negotiated indirect 
   cost rate?

**Cash Receipts**

The following conditions are indicative of satisfactory control over cash receipts.

1. The individual responsible for the cash receipts function does not sign checks or 
   reconcile the bank accounts and is not responsible for non-cash, accounting r 
   ecords, such as accounts receivable, the general ledger, or the general journal.

2. Receipts are deposited promptly and intact.

3. Current receipts are controlled by registers.

4. The organization has established procedures to minimize the time elapsing 
   between the transfer of funds from the Federal Government and their 
   disbursement.

The material which follows is designed to assist the auditor in reviewing and documenting the 
   cash receipts function.

1. Incoming mail:

   a. Are remittances listed on a control sheet for comparison with the bank deposit ticket?
b. Are the check remittances restrictively endorsed by the person opening the mail?

2. Are all receipts required to be recorded promptly and deposited intact daily or at appropriate regular intervals? (Describe the practice followed.)

3. Is the person receiving cash without authority to sign checks and reconcile bank accounts and without access to accounting records other than cash receipts?

**Program Receipts From The Federal Government**

1. Does the organization have grant agreements providing for funding under requests for advance payments or letters of credit? (Describe the method of funding.)

2. Does the organization have procedures, including cash requirement projections, minimizing the time between the transfer of funds from the Federal Government and their disbursements?

3. Are Federal funds deposited in a separate bank account or accounted for through grant-loan fund control accounts?

4. Does the organization's calculation of Federal funds required consider updated estimates of allowable program costs?

**Billing And Receivables**

The following conditions are indicative of satisfactory control over billing and receivables.

1. There are controls to insure that all goods shipped and services performed are billed and recorded.

2. Billing is by serially numbered invoices.

3. All documents supporting billings, such as shipping orders and service tickets, are also serially numbered.
4. Price lists or contractual terms covering goods and services are used for computing billing amounts. Exceptions to price list amounts are approved by an organization official.

5. Detailed receivable records are periodically balanced with the general ledger control accounts.

6. Non-cash credits to receivables are approved by an organization official.

7. An aged trial balance of receivables is periodically prepared and follow-up action is taken on overdue balances.

8. Duties are adequately separated so that the individual responsible for maintaining the receivable records does not have access to cash, approve credit to customers, authorize non-cash credits to receivables, or authorize shipments of goods or performance of services.

**Billings**

The material which follows is designed to assist the auditor in reviewing and documenting the billing and receivable functions.

1. Is the billing department notified of charges to be billed (a) for merchandise shipments, by receiving a copy of the shipping documents directly from the shipping department or (b) for services performed, by receiving a copy of the record of services performed directly from the individual or group performing the services? (Describe the practice followed.)

2. Are shipping documents and services records pre-numbered and correlated with billing invoices?

3. Are billing invoices pre-numbered and accounted for?

4. Are billing prices based on standard price lists or contractual agreements? (Describe procedure.)
5. If billing amounts are not based on standard price lists or contracts, are amounts approved by an official outside the billing department?

6. Are prices and extensions on billings independently verified?

7. Is a copy of the billing invoice sent directly to the accounts receivable departments?

8. Are there procedures to control the issuance of free merchandise and services? (Describe controls.)

9. Are there procedures to control the receipt of funds for miscellaneous transactions, such as (a) the sale or rental of property and equipment and (b) income from investments? (Describe procedures.)

**Receivables**

1. Are receivables detail ledgers periodically balanced with general ledger control accounts? (Describe practice.)

2. Are statements of account periodically prepared and mailed to debtors?

3. Are aged trial balances of receivables periodically prepared and reviewed by the credit department or some designated employee not responsible for billings, cash or receivables? (Describe procedures.)

4. Are notes receivable approved by an official before they are accepted by the organization?

5. Are notes and collateral periodically inspected by someone other than the custodian?

6. Is there control over follow-up action on delinquent accounts? (Describe the control procedures.)
7. Are non-cash reductions of receivables approved by an organization official?

8. Are there controls over advances to and receivables from employees?

**Purchasing, Receiving, And Accounting Payable**

The following conditions are indicative of satisfactory control over purchasing, receiving, and accounts payable.

1. Pre-numbered purchase orders are used for all items of cost and expense.

2. There are procedures to insure procurement at competitive prices.

3. Receiving reports are used to control the receipt of merchandise.

4. There is effective review by a responsible official following prescribed procedure for program coding, pricing, and extending vendors' invoices.

5. Invoices are matched with purchase orders and receiving reports.

6. Costs are reviewed for charges to direct and indirect cost centers in accordance with applicable grant agreements and applicable Federal Management Circulars pertaining to cost principles.

7. When accrual accounting is required, the organization has adequate controls, such as checklists for statement-closing procedures, to insure that open invoices and uninvolved amounts for goods and services received are properly accrued or recorded in the books or controlled through worksheet entries.

8. There is adequate segregation of duties in that different individuals are responsible for (a) purchase (b) receipt of merchandise or services, and (c) voucher approval.

**Purchasing**

The following questions are designed to assist the auditor in reviewing and documenting the purchasing, receiving, and accounts payable functions.
1. Is the purchasing function separate from accounting and receiving?

2. Does the organization obtain competitive bids for items, such as rental or service agreements, over specified amounts? (Indicate the amounts.)

3. Is the purchasing agent required to obtain additional approval on purchase orders above a stated amount? (Indicate the amount.)

4. Are there procedures to obtain the best possible price for items not subject to competitive-bidding requirements, such as approved vendor lists and supply item catalogs? (Describe the procedures.)

5. Are purchase orders required for purchasing all equipment and services?

6. Are purchase orders controlled and accounted for, by prenumbering and keeping a logbook? (Describe method.)

7. Do grant-loan agreements or related regulations impose requirements which differ from the organization's normal policies, such as competitive bid requirements? (List exceptions.)

8. Is the purchasing department required to maintain control over items or dollar amounts requiring the contracting officer's advance approval? (If yes, describe controlling factors.)

9. Under the terms of OMB Circular A-87, Cost Principles for State and Local Governments, certain costs and expenditures incurred by units of State and local governments are allowable only upon specific prior approval of the grantor Federal agency. Determine whether the grantee organization has established policies and procedures governing the prior approval of expenditures in the following categories.

   a. Automatic data processing costs.
b. Building space rental costs.

c. Costs related to the maintenance and operation of the organization's facilities.

d. Costs related to the rearrangement and alteration of the organization's facilities.

e. The cost of space procured under a rental-purchase or a lease-with-option-to-purchase agreement.

f. Capital expenditures.

g. Insurance and indemnification expenses.

h. The cost of management studies.

i. Pre-agreement costs.

j. Professional services costs.

k. Proposal costs.

10. Under the terms of OMB Circular 87, Cost Principles for State and Local Governments, certain costs incurred by units of State and local governments are not allowable as charges to Federal agency grants. Determine whether the grantee organization has established policies and procedures to preclude charging Federal grant programs with the following types of costs.

a. Bad debt expenses.

b. Contingencies.

c. Contribution and donation expenditures.

d. Entertainment expenses.

e. Fines and penalties.
f. Interest and other financial costs.

g. Legislative expenses.

h. Charges representing the non-recovery of costs under grant agreements.

i. The expenses of a State Governor or chief executive of a political subdivision.

**Receiving**

1. Does the organization have a receiving function to handle receipt of all materials and equipment?

2. Are supplies and equipment inspected and counted before acceptance for use?

3. Are quantities and descriptions of supplies and equipment checked by the receiving department against a copy of the purchase order or some other form of notification?

4. Is a logbook or permanent copy of the receiving ticket kept in the receiving department?

**Accounts Payable**

1. Is control established over incoming vendor invoices?

2. Are receiving reports matched to the vendor invoices and purchase orders, and are all of these documents kept in accessible files?

3. Are charges for services required to be supported by evidence of performance by individuals other than the ones who incurred the obligations?

4. Are extensions on invoices and applicable freight charges checked by accounts payable personnel?
5. Is the program to be charged entered on the invoice and checked by accounts payable personnel?

6. Is there an auditor of disbursements who reviews each voucher to see that proper procedures have been followed?

7. Are checks adequately cross-referenced to vouchers?

8. Are there individuals responsible for accounts payable other than those responsible for cash receipts?

9. Are accrual accounts kept for items which are not invoiced or paid on a regular basis?

10. Are unpaid vouchers totaled and compared with the general ledger on a monthly basis? (If not, indicate when the procedure is done.)

**Cash Disbursements**

The following conditions are indicative of satisfactory controls over cash disbursements.

1. Duties are adequately separated, different persons prepare checks, sign checks, reconcile bank accounts, and have access to cash receipts.

2. All disbursements are properly supported by evidence of receipt and approval of the related goods and services.

3. Blank checks are not signed.

4. Unissued checks are kept in a secure area.

5. Bank accounts are reconciled monthly.

6. Bank accounts and check signers are authorized by the board of directors or trustees.
7. Petty cash vouchers are required for each fund disbursement.

8. The petty cash fund is kept on an imprest basis.

The following material is designed to assist the auditor in reviewing and documenting cash disbursements.

1. Are checks controlled and accounted for with safeguards over unused, returned, and voided checks?

2. Is the drawing of checks to cash or bearer prohibited?

3. Do supporting documents, such as invoices, purchase orders, and receiving reports, accompany checks for the check signer's review?

4. Are vouchers and supporting documents appropriately canceled (stamped or perforated) to prevent duplicate payments?

5. If check-signing plates are used, are they adequately controlled (i.e., maintained by a responsible official who reviews and accounts for prepared checks?)

6. Are two signatures required on all checks or on checks over stated amounts? (Document the procedure followed.)

7. Are check signers responsible officials or employees of the organization? (Obtain a list of authorized signers for the work-papers.)

8. Is the person who prepares the check or initiates the voucher other than the person who mails the check?

9. Concerning petty cash disbursements:
   a. Is petty cash reimbursed by check and are disbursements reviewed at that time?
b. Is there a maximum amount, reasonable in the circumstances, for payments made in cash? (Indicate the amount.)

c. Are petty cash vouchers written in ink to prevent alteration?

d. Are petty cash vouchers canceled upon reimbursement of the fund to prevent their reuse?

**Payroll**

The following conditions are indicative of satisfactory controls over payroll.

1. Written authorizations are on file for all employees, covering rates of pay, withholdings, and deductions.

2. The organization has written personnel policies covering job descriptions, hiring procedures, promotions, and dismissals.

3. Distribution of payroll charges is based on documentation prepared outside the payroll department.

4. Payroll charges are reviewed against program budgets, and deviations are reported to management for follow-up action.

5. Adequate timekeeping procedures, including the use of timeclocks or attendance sheets and supervisory review and approval, are employed for controlling paid time.

6. Payroll checks are prepared and distributed by individuals independent of each other.

7. Other key payroll and personnel duties, such as timekeeping, salary authorization, and personnel administration, are adequately separated.

The material, which follows, is designed to assist the auditor in reviewing and documenting the payroll function.
1. Are personnel policies in writing?

2. Are payroll and personnel policies governing compensation in accordance with the requirements of grant agreements?

3. Are there procedures to control time and attendance reporting?
   a. Are timecards or attendance sheets used? (Indicate the method.)
   b. Is supervisory approval of time and attendance reports required?

4. Are there procedures to insure that employees are paid in accordance with approved wage and salary rates?

5. Is the distribution of payroll charges checked by a second person and are aggregate amounts compared to the approved budget?

6. Are authorizations on file covering rates of pay, withholdings, and deductions?

7. Are wages paid at or above the Federal minimum wage?

8. Are procedures adequate for controlling (a) overtime wages, (b) overtime work authorization, and (c) supervisory approval of overtime?

9. Are payroll checks distributed by persons not responsible for preparing the checks?

**Property and Equipment**

The following conditions are indicative of satisfactory control over property and equipment.

1. There is an effective system of authorization and approval of capital equipment expenditures.

2. Accounting practices for recording capital assets are reduced to writing.
3. Detailed records of individual capital assets are kept and periodically balanced with the general ledger accounts.

4. There are effective procedures for authorizing and accounting for disposals.

5. Property and equipment is stored in a secure place.

The following questions are designed to assist the auditor in reviewing documenting the system of control over property and equipment.

1. Are executive authorizations and approvals required for originating expenditures for capital items?

2. Are expenditures for capital items reviewed for grantor approval before funds are committed?

3. Are supplemental authorizations, including those of the grantor agency, required for expenditures in excess of originally approved amounts?

4. Does the organization have established policies covering capitalization and depreciation? (Describe policies.)

5. Does the organization charge depreciation or use allowances on property and equipment against any grant programs which it administers?

6. Is historical cost the basis for computing depreciation or use allowances?

7. Are the organization's depreciation policies or methods of computing use allowances in accord with the standards outlined in Federal circulars or agency regulations?

8. Are there detailed records showing the asset values of individual units of property and equipment?

9. Are detailed property records periodically balanced to the general ledger?

10. Are detailed property records periodically balanced to the general ledger?
11. Are differences between book records and physical counts reconciled and are the records adjusted to reflect shortages?

12. Are there procedures governing the disposition of property and equipment? (Describe procedures.)

13. Is the estimated salvage value noted on the authorization order relative to disposition of property and equipment?

14. Are periodic reports submitted showing obsolete equipment, equipment needing repair, or equipment no longer useful to the organization? (Describe reports.)

**Indirect Costs**

1. Does the organization have an indirect cost allocation plan or a negotiated indirect cost rate? (Paragraph F, Attachment A, Circular A-87, Cost Principles for State and Local Governments.)

2. Is the plan prepared in accordance with the provisions of OMB Circular A-87, Cost Principles for State and Local Governments?

3. Has audit cognizance for the plan been established and are the rates accepted by all participating Federal and State agencies?

4. Does the organization have procedures which provide assurance that consistent treatment is applied in the distribution of charges as direct or indirect costs to all grants?