



Internal control checklist for local governments

This self-assessment checklist has been compiled to assist city/county managers, clerks, treasurers, and auditors to assess their own internal control environment for accounting and financial reporting and to provide guidance in placing controls where weaknesses are perceived. Your entity's system of internal controls includes all of the policies and procedures needed to provide reasonable assurance that your financial information is reliable, that operations within your office are effective and secure, and that you are complying with applicable laws and regulations.

Answer each of the questions by circling "Y" (Yes) or "N" (No) in response to each question.

After completing the questionnaire, scan down your answers in the "Response" column, noting whether they are aligned to the left or right side of the column. The questions that you have been able to answer on the left side indicate the internal control is in place. Your answers on the right side indicate an internal control weakness. This checklist should give you a good indicator of the number and type of internal controls that might need attention in your operation. Please give your auditor or the Washington State Auditor's Office (360) 902-0370 a call if you need assistance.

General		Response		Comments
1.	Is management aware that internal control is their responsibility?	Y	N	
2.	Does management show commitment to establishing and maintaining controls?	Y	N	
3.	Does your entity have an organizational chart defining the activities and persons responsible for them?	Y	N	
4.	Are the duties of officials and employees clearly defined and assisted?	Y	N	
5.	Does management consistently exhibit high ethical and professional standards in its conduct, setting the standard for the entire organization?	Y	N	
6.	Are personnel involved in accounting functions required to take an annual vacation?	Y	N	
7.	Are accounting functions performed by other personnel during the vacation of primary accounting personnel?	Y	N	
8.	Is other staff trained in the accounting functions to provide backup in the case of vacation or other absence of the primary bookkeeping employee(s)?	Y	N	
9.	Is responsibility for accounting duties ever rotated among staff?	Y	N	
10.	Is your entity in compliance with state statutes covering incomparable office?	Y	N	

General		Response	Comments
11.	Is a current, accurate and accessible policy and procedures manual in place, including an official code of conduct/ethics or an official set of policies governing employee conduct/ethics?	Y	N
12.	Are the policies governing employee conduct communicated in an effective way to staff and reviewed with them periodically?	Y	N
13.	Is confidential or sensitive material (e.g. payroll records and taxes) maintained separately from non-confidential records?	Y	N
14.	Is insurance coverage reviewed periodically by qualified individuals to determine adequacy.	Y	N
15.	Does the comprehensive liability policy include liability coverage for all officials and employees?	Y	N
16.	Is a budget system (including monthly or quarterly budget reports) used by management for watching income and expenses?	Y	N
17.	Are cash projections made and periodically compared by management to the operational accounting information?	Y	N
18.	Do surety and/or performance bonds cover all employees/officials who handle the city's/county's funds?	Y	N
19.	Are surety bonds of a sufficient amount, as prescribed and approved by the Council or Commission?	Y	N
20.	Are authorizations for all bank accounts and check signers updated annually?	Y	N

Financial Records		Response	Comments
21.	Do you have different staff responsible for a) authorizing a transaction, b) recording the transaction in the accounting records, and c) maintaining custody of the assets resulting from the transaction?	Y	N
22.	Is an accounting system in use that allows management to record financial transactions, view the data by category, and create timely reports to maintain accountability for the government's assets?	Y	N
23.	Are detailed cash receipts journals maintained?	Y	N
24.	Are detailed cash disbursement journals maintained?	Y	N

Financial Records	Response	Comments
25. Are Council records (if separate records other than orders are kept) reconciled with the clerk/treasurer's records monthly?	Y	N
26. Are the general ledger and its subsidiary ledgers kept up to date and reconciled monthly?	Y	N
27. Is a chart of accounts used?	Y	N
28. Are records properly guarded from fire, theft and manipulation?	Y	N
29. Is computerized data backed up daily and source documents retained until backup?	Y	N
30. Is a copy of electronic data properly stored off-site?	Y	N
31. Are all financial recording documents (receipts, purchase orders sequentially prenumbered, retained, and accounted for, including spoiled or voided forms?	Y	N
32. Are automatic duplicates of certain forms (receipts & purchase orders) provided to individuals (e.g. vendors, taxpayers, etc.)?	Y	N
33. Is the person who does the bank reconciliation different from the person authorized sign to checks and make deposits?	Y	N
34. Is the bank reconciliation procedure documented?	Y	N
35. Are bank statements reconciled monthly, preferably within 15 days after the statement date?	Y	N
36. Does a responsible official, other than the preparer, review completed bank reconciliations?	Y	N
37. Is the completed bank reconciliation initialed and dated by both the preparer and the reviewer?	Y	N
38. Are the following monthly procedures currently performed:	Y	N
• Reconcile cash accounts?	Y	N
• Reconcile accounts receivable to the detail invoices?	Y	N
• Reconcile payroll withholdings to the payroll reports?	Y	N
• Reconcile accounts payable subsidiary ledger to actual invoices?	Y	N
• Reconcile property tax receipts to the property tax receivables?	Y	N

Cash Receipts	Response	Comments
40. Is receipt of currency (which include checks) adequately controlled until deposited or remitted to the treasurer (within 24 hours as required by state law)?	Y	N
41. Is a copy kept of the treasurer's signed and dated endorsement of the tax collector's receipts, payments and any abatements?	Y	N
42. Have safeguards been provided to prevent officials or employees from cashing checks payable to the city/county?	Y	N
43. Are monies received by one employee, documented and then deposited by another employee?	Y	N
44. Are all monies received by the city/county turned over intact daily to the person who makes the bank deposit?	Y	N
45. Does the clerk/treasurer keep separate accounts of all money received as highway or school taxes?	Y	N
46. Is the person who handles cash (receipts, bank deposits, purchases) different from the person who keeps the cashbooks/accounting records?	Y	N
47. Are funds received over the counter controlled by sequentially numbered counter receipts?	Y	N

Purchasing	Response	Comments
48. Is Council/Commission or Manager approval:	Y	N
a. Required for all purchases?	Y	N
b. Signed by a majority of the board and dated?	Y	N
49. Does the treasurer keep a book recording all pay orders (outstanding payables) that are not paid?	Y	N
50. Are the functions of purchasing goods, receipt of goods, and cash payment for goods performed by separate employees?	Y	N
51. Are:	Y	N
Checks pre-numbered?	Y	N
Unused checks controlled?	Y	N
Check signature stamps secured and not provided for staff use?	Y	N
Checks prepared and signed by separate employees?	Y	N
Checks are never written to "Cash"?	Y	N

Purchasing		Response		Comments
52.	Are materials and supplies inspected for condition and counted when received?	Y	N	
53.	Are materials and supplies inspected for condition and counted when received?	Y	N	
54.	Does invoice processing include a mathematical check of footings, extensions and discounts?	Y	N	

Cash Disbursements		Response		Comments
55.	Are all cash disbursements, except petty cash items, made by check?	Y	N	
56.	Are checks signed and immediately sent out but not returned to the check preparer to distribute?	Y	N	
57.	Are pre-numbered checks used?	Y	N	
58.	If checks are produced manually, is a controlled, mechanical check protector used?	Y	N	
59.	Are checks produced on an automated financial system?	Y	N	
60.	Is all investment activity by the clerk/treasurer approved by the Council/Commission and documented?	Y	N	
61.	Is petty cash handled through a fixed amount account with limited purchases that are reviewed by another individual?	Y	N	

Property and Equipment		Response		Comments
62.	Are schedules of fixed assets and depreciation maintained?	Y	N	
63.	Are periodic inventories taken and compared with the schedules of fixed assets?	Y	N	
64.	Is all property and equipment purchased or leased with city/county funds held in the name of the city/county?	Y	N	
65.	Are invoices maintained to support the purchase or lease of equipment?	Y	N	

Notes and Investments		Response		Comments
66.	Are schedules maintained of all borrowing and investing activities?	Y	N	

Grand List and Tax Records		Response	Comments
67.	Is a system used (ideally a tax map) to be certain that all taxable property is included in the grand list?	Y	N
68.	Are newly constructed or remodeled structures updated timely?	Y	N
69.	Does the delinquent tax collector turn all receipts over to the clerk/treasurer so that the collector's fees can be entered into the city's/county's books as wages?	Y	N
70.	Does the city/county have adequate follow-up policies with delinquent taxpayers?	Y	N
71.	Does the entity maintain adequate records to support discounts or credits?	Y	N
72.	Does someone other than the tax collector (delinquent or current) reconcile taxes?	Y	N

Enterprise Funds (Water, Sewer, etc.)		Response	Comments
73.	Do accounting practices for enterprise funds follow guidelines listed above for all other city/county funds?	Y	N
74.	Is the follow-up on delinquent accounts adequate?	Y	N

References:

Internal Control Guidebook 2010, National Association of State Comptrollers (as modified by the Washington State Auditor's Office. http://www.sao.wa.gov/EN/ClientSupport/AccountabilityFraud/Documents/Prevention_IC_guidebook.pdf

"Evaluating Internal Controls, A Local Government Manager's Guide", S. Gauthier, Government Finance Officers Association (GFOA), Chicago, IL., 2004.

Part 3, Chapter 9, Section 24 of the Washington State Auditor's Budget, Accounting and Reporting Systems Manual for Cities, Counties and Special Purpose Districts (GAAP): Accounting Principles and Internal Control http://www.sao.wa.gov/EN/ClientSupport/FinancialReporting/LGS/BarsManuals/Documents/BarsManuals/GAAP_p3ch1s3.pdf