



# XIX Internal Controls

Internal Control is a method under which duties are arranged and segregated to enable effective accounting control over assets, liabilities, revenues and expenditures. Duties are subdivided so that no single employee performs a complete cycle of operations. This reduces the opportunity for any single person to both commit and conceal errors or irregularities in the normal course of business. Separation of duties also increases the likelihood that unintentional errors will be discovered through reconciliations and other normal work activities.

An individual's assigned duties may differ greatly depending upon the size of the organization and the number of individuals available to perform the duties. Other factors that influence the assignment of duties and the internal control system may be such things as physical location, experience or competence of an employee and the attitude of the administrators.

Internal control is particularly critical in the area of cash receipts. See SAM 8080, 8080.1 and 8080.2 for guidelines. Areas discussed in the following paragraphs are preparing checks, disbursements (refunds), receiving cash, bank reconciliation and other responsibilities.

## PREPARING CHECKS

The following guidelines should be observed when preparing checks.

- ✪ The person who prepares checks should not sign them.
- ✪ The person who signs checks should not have access to the blank check stock.
- ✪ The person who signs checks should do so only after comparing them with authorizations and supporting documents.
- ✪ The person who types manual checks should not distribute them.
- ✪ Persons who either enter a check batch into CALSTARS or control the printing of automated checks should not distribute them.
- ✪ If a check-signing machine is used, the check preparation person should not operate the check-signing machine. The signed checks should be compared with authorizations and supporting documents by a third person. The check signature plate(s) should be given the same custody and protection as cash.

- ✧ Make a daily comparison of the meter reading on the check signing machine and the log of checks signed by the machine. A full accountability of all checks used must be completed monthly.
- ✧ The person authorized to sign checks must refuse to sign:
  - Blank checks;
  - Checks made out to cash;
  - Checks made out to the check signer; or,
  - Checks made out to the check preparer.
- ✧ See SAM 8001.2 regarding authorized signatures and SAM 8041 regarding spoiled checks and signature requirements for large checks.

## CASH DISBURSEMENTS

The following guidelines should be observed for cash disbursements.

- ✧ The person who authorizes or enters disbursement documents should not reconcile the resulting reports. (EXAMPLE: A person who enters a travel advance to CALSTARS should not reconcile the Revolving Fund.)
- ✧ A person preparing reports on goods received cannot process an invoice for payment for those goods.
- ✧ The person authorizing an invoice for payment cannot sign a check for the disbursement.

## RECEIVING CASH

The following guidelines should be observed when receiving cash.

- ✧ The supervisor of the person depositing the cash should review the bank deposit slip and verify that all receipts are recorded.
- ✧ To properly transfer a cash change, cash purchase, or cash payments fund, both the old and new custodian must independently count the fund. A common receipt must be prepared. Both custodians must sign the receipt before presenting it to the Accounting Officer.
- ✧ Any person who handles cash and other valuables should take an annual vacation. His or her duties should be rotated among other office staff and affected accounts reconciled during their absence.
- ✧ A person who collects and prepares numbered receipt forms should not control the forms or have access to the numbering mechanism, if the forms are prepared locally.
- ✧ A person who prepares receivables cannot process cash receipts and vice versa.
- ✧ A person who prepares claim schedules cannot process cash receipts.

- ✧ Checks and money orders must be restrictively endorsed. Checks and negotiable instruments not payable to the agency must be logged in a prelisting when received through the mail. All cash must be delivered at least daily to another person. This person should perform an independent count and prepare a bank deposit.
- ✧ See SAM 8030.1, paragraphs 1-4 for guidelines on frequency of bank deposits.

## **BANK RECONCILIATION**

The following guidelines should be observed for bank reconciliation.

- ✧ A person who signs checks cannot prepare the bank reconciliation.
- ✧ The person receiving and depositing cash should not do the bank reconciliation.
- ✧ A person who authorizes cash disbursements should not do the bank reconciliation.
- ✧ The sequence of check numbers must be verified when the bank reconciliation is prepared.
- ✧ The bank reconciliation must be reviewed by a second person. Both the preparer and the reviewer must sign and date the completed reconciliation.
- ✧ Aged outstanding checks need to be investigated regularly. The person who investigates aged checks should not be involved with the replenishment or reconciliation of the revolving fund or bank statement.

## **OTHER**

The following guidelines should be observed for other money related activities.

- ✧ A person who receives and deposits remittances cannot enter the receipt information in CALSTARS.
- ✧ Except for vendor discounts, a person preparing claim schedules should not have authority to adjust vendor invoices or credit memos.
- ✧ Transactions entered in CALSTARS should be reconciled daily on Form CALSTARS 30, Daily Batch Reconciliation.
- ✧ The attendance timekeeper cannot distribute payroll warrants.
- ✧ See SAM 8020.1 and 8021 regarding prelisting and transfer receipts.
- ✧ See SAM 8024 for procedures for safe combinations.
- ✧ When a person leaves the accounting unit, action should be taken to change locks, safe access and signature authority. All changes of authority should be documented.

- ✪ When a person leaves the accounting unit, his/her supervisor should insure that any CALSTARS documents and reports in his/her possession are returned to the unit files.
- ✪ When a person with unique knowledge of the CALSTARS tables leaves the accounting unit, his/her supervisor should insure that adequate documentation is in the unit files.
- ✪ When any person with a CALSTARS SIGNON ID leaves the accounting unit, the Agency Security Supervisor should immediately submit a CALSTARS 95, CALSTARS Security Form, to cancel that person's access to CALSTARS.
- ✪ As part of the exit process, the Agency Security Officer or other accounting supervisor should have the person leaving partially sign on to CALSTARS. The supervisor should then key a new password not known to the person leaving.
- ✪ The Agency Security Officer should develop a specific procedure for granting and canceling access to CALSTARS by contract and temporary persons, as appropriate. The previous two procedures also apply to contract or temporary persons who have CALSTARS access and have completed their assignments.
- ✪ When anyone with access to CALSTARS leaves under adverse circumstances, the Agency Security Officer should immediately contact the CALSTARS Security Supervisor, (916) 445-0211, Extension 2858, CNET 485-0211. The person's CALSTARS SIGNON ID may be cancelled within a few minutes.

## COMPLIANCE WITH INTERNAL CONTROL

The Financial Integrity and State Manager's Accountability Act of 1983 requires that the head of each State agency establish and maintain an adequate system of internal control. It is recommended that a proposed distribution of duties be submitted to the department's director or his designee for review and approval. In addition, if the resources available to a department do not permit compliance with the separation of duties specified in SAM 8080, it is recommended that the department consider contracting with other agencies or the Department of General Services, Contracted Fiscal Services for accounting services.

## SEPARATION OF DUTIES IN A SMALL AGENCY

Separation of duties is often a problem in small agencies. Exhibits XIX-1 through XIX-4 are examples of an acceptable separation of duties in the areas of cash disbursements control, cash receipts control, payroll control, and property/equipment control.

EXHIBIT XIX-1  
SEPARATION OF DUTIES  
CALSTARS AGENCY  
CASH DISBURSEMENTS

DUTIES	Exec Director	Program Directors	Admin Assistant	Secretary	Accountant	Account Clerk	Program Staff
Approves purchases	X			N		N	
Approves disbursements		X		N	N	N	
Prepares or types checks	N		N	X <sup>1/</sup>		N	N
Compares checks with vouchers (invoices) when checks are signed	X						X
Manually signs checks if the amount is less than an established limit	X	X	N	N		N	X
Mails or distributes checks	N	N		N		X	N
Prepares and enters check batches						X	
Controls blank check stock	N	N	X	N	N	N	N
Maintains Petty Cash Fund				X			
Has access to safe	X				X		
Reconciles to SCO + misc.					X		
Reconciles CALSTARS Labor					X		
Does CALSTARS Table Maintenance					X	N	
Does CALSTARS Daily Batch Reconciliation						X	
Reconciles bank statement	N	N	N		X	N	N

X = Duty Assigned

N = Should not be assigned because of other duties

<sup>1/</sup> Introduces a risk if performed with other duties.

EXHIBIT XIX-2  
SEPARATION OF DUTIES  
CALSTARS AGENCY  
CASH RECEIPTS

DUTIES	Exec Director	Program Directors	Admin Assistant	Secretary	Accountant	Account Clerk	Program Staff
Opens mail and receives cash			N	X	N	N	
Prepares cash prelisting			N	X	N	N	
Receives counter collections			N	X	N	N	
Prepares receipt forms			N	X	N	N	
Prepares collection reports			N	X	N	N	
Restrictively endorses checks and prepares bank deposits			X	N	N	N	
Makes bank deposits			N			X	
Controls numbered receipt forms			X				
Compares prelisting and collection reports with deposits					X		
Prepares and enters cash receipts			N		N	X	
Reconciles bank statement	N	N	N		X	N	N

X = Duty Assigned

N = Should not be assigned because of other duties

EXHIBIT XIX-3  
SEPARATION OF DUTIES  
CALSTARS AGENCY  
PAYROLL

DUTIES	Exec Director	Program Directors	Admin Assistant	Secretary	Accountant	Account Clerk	Program Staff
Maintains attendance reports			N	X			
Certifies payroll attendance reports		X	N				
Prepares payroll checks			N	X			
Signs payroll checks	X		N	N			
Receives or picks up payroll checks for unit distribution	N	N	X	N		N	N
Receives undistributed payroll checks from units for temporary safekeeping	N	N	X	N		N	N
Maintains Employee Master Table File			N		X	N	
Maintains vacation, sick leave and overtime accumulation records						X	
Signs reports of appointment and reports of separation	X						
Keys timesheets in Timesheet File					N	X	
Distributes payroll checks	N	N	X	N			N

X = Duty Assigned

N = Should not be assigned because of other duties

EXHIBIT XIX-4  
SEPARATION OF DUTIES  
CALSTARS AGENCY  
PROPERTY AND EQUIPMENT

DUTIES	Exec Director	Program Directors	Admin Assistant	Secretary	Accountant	Account Clerk	Program Staff
Authorizes equipment purchases		X	N	N	N	N	
Orders equipment	N	N	N	X	N	N	
Receives incoming equipment	N	N	X	N	N	N	
Has custody of unassigned equipment					X		
Authorizes equipment disposal	X						
Disposes of surveyed equipment						X	
Develops entries to General Fixed Assets Group of Accounts					X	N	
Maintains property ledger			N	N		X	
Balances property ledger to General Fixed Assets Group of Accounts						X	
Takes physical inventory			N	X	N	N	
Reconciles physical inventory to perpetual inventory						X	

X = Duty Assigned

N = Should not be assigned because of other duties