**THIS DOCUMENT MUST BE UPDATED FOR EACH ENTITY'S NEEDS**

**A model internal control plan**

# Introduction and background information

## Introduction

[*Name of Individual]*, Director of the *[Name of Agency]*, has designated *[Name of Individual]*, Administrator, *[Name of Division]*, as the agency's Internal Control Officer. As Internal Control Officer, *[Name of Individual]*, in addition to his/her regular duties, has the responsibility to ensure that:

The written documentation of the *[Name of Agency]*’s internal control system over financial reporting is on file and available for review by agency personnel and auditors.

The *[Name of Agency]*'s internal control system is evaluated at least annually or more often as conditions warrant.

The results of audits and recommendations to improve agency internal controls are promptly evaluated by the *[Name of Agency]* management and that appropriate measures are implemented on a timely basis.

All action determined by the *[Name of Agency]* management as necessary to correct or otherwise resolve matters will be addressed by the agency in its budgetary request to the Governor and Legislature.

*[Name of Internal Control Officer]* is responsible for communicating the contents of the plan to operational managers and for providing the necessary technical guidance and assistance to implement the plan.

The *[Name of Agency]* is committed to maintaining an effective internal control system. The annual review and update of the *Internal Control Evaluation and Monitoring Plan* is an important component of the agency's overall internal control structure.

## General information

### Agency mission

The Montana *[Name of Agency]* administers:

|  |
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|  |
|  |
|  |

Statutory references (Montana revised statutes):

|  |
| --- |
|  |
|  |
|  |

### 

### Executive staff

Insert names of the Director, Deputy Directors, Administrators and other Executive Staff.

*[Name of Individual], [Title], [Name of Division]*

*[Name of Individual], [Title], [Name of Division]*

*[Name of Individual], [Title], [Name of Division]*

### Designated internal control officer

[Name of Individual], [Title], [Name of Division]

### Other internal control contacts/team members [name of individual], chief fiscal officer, financial services

[Name of Individual], Chief, Office of Internal Audit Services

[Name of Individual], Title, Financial Services

[Name of Individual], Internal Control Team Member – Expenditures

[Name of Individual], Internal Control Team Member – Revenue

[Name of Individual], Internal Control Team Member – IT Specialist

### Organization chart

Insert agency organization chart here.

# Management’s key internal control concepts

Concept 1: Risk assessments should be conducted.

|  |  |
| --- | --- |
| **Designated Units:** | In general, the *[Name of Division]* is charged with conducting risk assessment within the Agency. *[Name of Division]* is responsible for the Office of Internal Audit Services. |

The Office of Internal Audit Services (Internal Audit) develops an annual internal audit plan for the *[Name of Agency]* based upon the following factors:

Risk assessments of critical systems

Reviews of internal, financial, and administrative systems and procedures

Executive staff’s assessment of existing risks

Past internal audit experience

Review of the risks inherent with the implementation of new processes

Internal Audit evaluates internal controls by analyzing the control environment, identifying and prioritizing functions and activities most likely to have control problems, and then analyzing the potential risks to determine whether existing controls are sufficient to manage them.

Upon completion of an audit, *[Name of Individual]*, Chief Audit Executive (CAE), reviews the audit team’s findings. A final report, including management’s proposed corrective action plan, is forwarded to the Director and the Deputy Director for the area audited. Internal Audit performs follow-up reviews to ensure corrective action has been taken.

The process by which internal audit reports are issued and corrective actions monitored is detailed in the Internal Audit charter entitled, *[Conducting Internal Audits And Management Responsibilities Related To Internal Audits].* In addition, the CAE reviews the audit reports issued by external agencies (e.g. State Audits Division and federal auditors) and advises Executive Staff of the audit findings. Executive Staff directs operational line management to prepare responses and corrective action plans.

This document is an overview of department wide control systems and processes. Areas deemed to be material in nature will have individual risk assessments and control determinations performed in association with the internal control review.

Concept 2: Internal control plan should be documented and communicated.

|  |  |
| --- | --- |
| **Designated Units:** | Executive Staff, Internal Control Officer, Division Administrators, Business Unit Managers and Supervisors |

*[Name of Internal Control Officer]*, in his/her duties as Internal Control Officer, has the overall responsibility of developing and communicating to the *[Name of Agency’s]* management the content of the agency's written internal control plan. The *[Name of Agency’s] Internal Control Evaluation and Monitoring Plan* is updated annually.

Each Administrator is responsible for ensuring compliance with all requirements that pertain to his/her area of responsibility, including the development and maintenance of applicable written policies and procedures.

In addition, each Administrator is responsible for ensuring that copies of the internal control plan are made available for Bureau Chief and Section Supervisors to review. Bureau Chiefs and section Supervisors are responsible for communicating the importance of internal controls to their staffs.

Concept 3: Duties should be segregated.

|  |  |
| --- | --- |
| **Designated**  **Units:** | Executive Staff, Administrators, Bureau Chiefs and Supervisors |

All members of *[Name of Agency]* Executive Staff and all Administrators and their staff are responsible for complying with internal control policies concerning segregation of duties for tasks and functions under their jurisdiction.

Consistent with the Department of Administration’s *Internal Control policy*, the *[Name of Agency]* adheres to the following principles:

The individual responsible for hiring, terminating, and approving promotions is not directly involved with preparing payroll or inputting data.

Individuals approving time sheets are not involved in preparing payroll.

Individuals involved in payroll data entry do not have payroll approval authority.

Individuals responsible for data entry of encumbrances and payment vouchers do not have authority to approve them.

Individuals responsible for acknowledging the receipt of goods are not also responsible for purchasing and/or accounts payable activities.

Individuals who monitor physical inventory do not have the authority to approve withdrawals of items maintained in inventory.

Individuals responsible for billing are not responsible for collecting and processing cash receipts.

Individuals responsible for maintaining accounts receivable are not involved with cash receipts.

Individuals receiving cash into the office are not involved in making deposits.

Individuals receiving cash or making deposits are not involved in reconciling the bank accounts.

The person signing manual checks is not the person who reconciles the bank accounts.

If any of the above duties cannot be segregated, compensating controls have been implemented and are being followed.

Concept 4: Internal control systems should be supervised

|  |  |
| --- | --- |
| **Designated Units:** | Executive Staff, Administrators, Bureau Chiefs and Supervisors |

Managers are required to establish clear lines of authority and responsibility. The effectiveness of internal controls depends upon the thoroughness, consistency and timeliness of supervision. *[Name of Agency]* Executive Staff and all Administrators and their staff are responsible for ensuring that their jurisdictions have qualified and continuous supervision. This supervision is provided to ensure that internal control objectives are achieved.

The duties of the manager/supervisor in carrying out their responsibilities include:

Clearly communicating the duties, responsibilities and accountabilities assigned to each staff member.

Systematically reviewing each member's work to the extent necessary.

Approving work at critical points to ensure that work flows as intended.

The methods used to perform these duties include:

Holding regularly scheduled staff meetings.

Assigning tasks and establishing written procedures for completing assignments.

Providing guidance and training (or opportunities to attend training) when necessary.

Regularly reviewing appropriate management reports.

Providing appropriate recognition of employee suggestions for control improvements.

Concept 5: Transactions should be documented

|  |  |
| --- | --- |
| **Designated Units:** | All processing units within Financial Services and any other work unit involved in Records Management and Archiving, Cash Receipting, Cash Disbursements, Accounts Receivable, Accounts Payable, and other processing activities. |

All transactions must be supported by appropriate documentation. The documentation must be complete and accurate and should allow tracing a transaction or event from the source documents, while it is in process, through its completion. The documentation should be readily available for examination.

Regardless of format, the supporting documentation should indicate the purpose or reason for the transaction and that the transaction was properly authorized. The transaction amount should be clearly evident or easily verified upon recalculation. The documentation should fully support the information entered in other key data fields in accordance with requirements specified by the MOM category 300. In cases where estimates are used, the underlying methodology (trend analyses, ratios, assumptions, etc.) should be documented and readily available for audit. For system-generated transactions, documentation that clearly describes the methodology, formulas and calculations, and the applicable system links and processes should be maintained.

The Agency's records management policies and guidelines are contained in the *Agency Retention Schedule*. The Secretary of State Records and Information Management Division (Records Management) maintains the Agency Retention Schedule and distributes it to all *[Name of Agency]* divisions. The purpose of the schedule is to establish standards and procedures that are consistent Montana Administrative Rules (MAR). The *Agency Retention Schedule* is updated on a periodic basis and dated amendments are issued when a new form is created or when a form becomes obsolete or is revised. Each Division appoints a Records Coordinator who works with Records Management to ensure effective records management throughout the agency.

The Records Coordinator for each division/bureau is responsible for ensuring that all original documents and records in support of the Agency’s accounting transactions are imaged or otherwise retained in accordance with the *Agency Retention Schedule* and that a detailed accounting of all financial records sent to Records Management is maintained.

Concept 6: Transactions should be authorized

|  |  |
| --- | --- |
| **Designated Units:** | All processing units within Financial Services and any other work unit involved in Records Management |

Transactions and other significant events are authorized and executed only by persons acting within the scope of their authority. The Director of *[Name of Agency]* delegates authority to Division Administrators to perform the operations of the Agency. Division Administrators may also delegate restricted signature authority to other employees within their reporting structure. A delegation form signed by both the appointing authority and the delegate is required. The form should describe the type of authority being delegated and may specify the dollar and/or other limits. Division administrators or their delegates must review them periodically to ensure that authorizations and signatures are up-to-date. In addition, the Department of Administration Accounting Bureau provides periodic training to managers and staff on their fiscal responsibilities.

Financial statement adjustments and interfund/interagency transfer transactions are also subject to management review and approval. Designated individuals with appropriate experience and background have been authorized to approve these transactions. The supporting documentation should clearly show that adjustments and transfers have been properly reviewed and authorized before they are entered into the accounting system.

The *[Name of Agency]*'s Executive Staff, Division Administrators and Bureau Chiefs are responsible for complying with all laws and regulations that in any way relate to their job functions. This includes, but is not limited to, federal and state laws and regulatory requirements, the administrative guidelines and accounting policies issued by the Department of Administration, directives issued by the Governor’s Office, Administrative Rules and the agency’s own policies and procedures.

Concept 7: Access to resources should be controlled

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| --- | --- |
| **Designated Units** | Executive Staff, Financial Services, Information Technology Services*, [Other business Units]* |

### Access to physical resources

The Department of Administration General Services Division is responsible for managing and safeguarding both owned and leased buildings, building-related equipment and land used to conduct agency business. The Department of Transportation Motor Pool is responsible for management and safeguarding of autos and other vehicles within the State Motor Pool fleet. The Department of Administration Information Technology Services Division manages the acquisition and safeguarding of central computer hardware and software. The various business units are responsible for acquiring and managing other machinery and equipment. Acquisition and disposition procedures are aligned with fixed asset policies and procedures published in MOM category 300.

Annually, [Name of Division] must conduct an inventory of all capital assets (over $5,000) and all high risk assets (under $5,000), such as computers and accessories. Discrepancies are investigated and adjusted. The inventory serves two purposes. It ensures the accuracy of fixed asset information reported in the fixed asset module for use in the annual financial statement and to DOA Risk Management Division for insurance purposes.

The [Name of Division] uses a manual system to track its inventory of [supplies/products] sold/issued to customers/clients. Quarterly physical counts are performed in order to verify the accuracy of the balances on hand. An automated inventory supply system is used to track parts, etc. for operation of the [Central Shop]. It provides a continuous record of all additions and deletions of individual items, as well as to whom the items were issued. Physical counts are performed every [frequency] to verify the accuracy of the system's balances. Variances are investigated and corrected for both systems, as needed.

All losses, including those that appear to be caused by fraud or dishonesty, are reported immediately to Attorney General and the Legislative Audit Division.

### Access to monetary resources

The agency's policies on segregation of duties are designed to assist management in deterring employee theft.

* Cash handling is separated from record keeping.
* Customer billing is separated from cash collection.
* No one person is allowed to handle a cash transaction from beginning to end.
* Passwords are changed monthly for access to automated accounting records.
* Cash receiving is centralized to the extent possible.
* Reconciliation of the accounting records to State Treasury accounts and other authorized bank accounts is performed promptly by individuals who have no responsibility for handling cash.

Cash or checks that are not deposited within one day of receipt are locked in a safe overnight.

The issuance and the inventory of blank check stock are strictly controlled. Check stock is kept in a locked safe.

### Access to personnel

The *[Name of Section]* is responsible for evaluating the physical security and safety of *[Name of Agency]* employees at all facilities and for suggesting corrective action when necessary. The *[Name of Section]* responds to threats made to employees.

Building security for *[Name of Agency]* locations at *[address]* is provided by security guards and card-access systems.

### Access to information

An access control policy exists for all agency systems that defines the strategy to prevent unauthorized access. Employees, consultants, and contractors, who design, develop, operate, or maintain IT systems, are subject to background investigations and must be authorized to access the systems. All visitors to restricted premises, not previously cleared or identified by badge, are escorted.

All users of IT systems must receive appropriate clearance to use a system (from appropriate IT security management and/or the application administrators). This permission must be written and includes assignment of a User ID and Password. All users of an IT system must receive security awareness training either in a formal classroom setting or by other means, such as *[user awareness brochures, on-line or electronic mail training, or individual instruction from IT personnel who install or set up the workstation].*

All IT system use is restricted to official business purposes, except for *[describe exceptions, if any].* Users are encouraged to report suspicious behavior to their supervisor or IT security personnel.

As required by DOA Information Technology Services Division policy the agency security officer, *[Name of Person]*, is responsible for security issues involving access and use of statewide systems.

[Describe other systems applications with special access requirements. Examples might include an e-commerce application.]

Concept 8: Employees must adhere to the agency’s code of conduct

|  |  |
| --- | --- |
| **Designated Units:** | Executive Staff, *[Name of Division]* |

The *[Name of Division]* has been delegated a significant role in ensuring employee integrity. It is responsible for all internal affairs matters, internal audits, investigations, physical and computer security, employee safety, employee background checks and employee activity. *[Name of Division]* is also responsible for administering and working with management to promulgate the agency's Code of Conduct.

### Office of Internal Affairs or similar organization

The *Office of Internal Affairs or similar organization* with in *[Name of Division]* is responsible for safeguarding employee integrity within the *[Name of Agency].* The three primary functions of this office are:

Educating employees on the risks of misconduct.

Conducting background investigations of [Name of Agency] job applicants and appointees.

Investigating allegations of misconduct by [Name of Agency] employees or others attempting to cause agency employees to violate the law or the Code of Conduct.

### 

### Code of conduct

All new *[Name of Agency]* employees must attend a Code of Conduct training session supervised by the *[Office of Internal Affairs]*. On an annual basis, all employees are required to attend *["Name of Course"],* a Code of Conduct refresher course. The training and materials provide employees with knowledge and awareness of the following:

* Employees must avoid any actual conduct which constitutes a conflict of interest or conduct which gives a reasonable basis for the perception of a conflict of interest between their private and public interests
* Employees are prohibited from taking action, performing any duty, or giving any preferential treatment from which they would benefit personally.
* Employees are prohibited from taking action which would result in illegal receipt of public or private funds.
* Employees may not participate in any official action relating to any entity or individual in which they or their immediate family has a financial interest.
* Current or former employees or officers must comply with restrictions regarding other employment, unwarranted privileges or self-exemptions, or improper exemptions.
* Employees must adhere to other standards of conduct described in Code of Conduct handbook.

Executive Staff is responsible for administering policies regarding political activity by *[Name of Agency]* personnel. The Director's Office periodically issues guidelines to all Divisions to ensure compliance with federal and state laws and regulations pertaining to allowable political activity by public employees. The employee handbook addresses political activity in the Workplace Guidelines policy.

### Office of Internal Audit Services

The Office of Internal Audit Services within [Name of Division] is responsible for reporting suspected, unauthorized browsing of customer, employee or [other *stakeholder]* records to Executive Staff.

# Transaction cycles

## Financial Reporting - The focus of this section is financial reporting.

### Overriding Control Objectives – Ensure that:

* An assessment process exists to identify significant financial exports, significant accounts, relevant financial report assertions, and major transaction cycles.
* Internal controls are documented; and management has an understanding of controls for all significant accounts, groups of accounts, and transactions.
* A system exists to identify, accumulate, and evaluate design and operating control deficiencies; communicate findings; and correct deficiencies.
* Segregation of duties or mitigating controls exists between transaction processing, authorization, custody, and the recording functions.
* Management provides written assurance on the effectiveness of internal control over financial reporting.
* Financial reports can be easily verified by an independent auditor.

### Applicable Statutes, Rules, Policies and Procedure Manuals

* MCA 17-1-102 (The GAAP Law)
* MCA 17-2-102 (Fund Structure)
* MCA 17-2-107 (Accurate Accounting Records)
* MOM Category 300

### Automated Information Systems in Use

* SABHRS
* [*Others*]

### Key Reports

*Control and Requestable reports*:

* MTGL7008 Trial Balance Fund Report
* MTGL7002 General Ledger Activity Report
* MTGL0106-O Organizational Detail Report – Org
* GLC7501 Journal Entry Detail
* FIN2001 Journal Entry Detail
* Department of Administration Template for Financial Schedules
* Department of Administration Template for Notes to the Financial Schedules
* SABHRS DataMine

### Questions for Determining Risk

#### Who are the users of the financial representations made by the department?

#### What are the materially quantitative and qualitative programs, funds, and accounts in relation to the overall financial presentation?

#### What are the risks inherent to these material areas?

#### What controls exist to mitigate such inherent risks?

* + How effective is our internal control system in mitigating material misstatements?

#### What financial presentations could be materially misleading without additional note disclosures being made?

### Documentation

#### As noted in Section II, Concept 1, the [*Internal Audit Unit*] will perform risk assessments, over quantitatively or qualitatively material financial disclosures, prior to testing internal controls. Working papers related to such reviews shall be *[saved to here or available hard-copy here]* for retention and retrieval. Such documentation will primarily be accessible only to the [*Internal Audit Unit*], reviewers specifically assigned to the testing team, and other parties (e.g. - Legislative Audit Division personnel or Federal cognizant) determined to require necessary and proper access.

## Expenditure cycle - The focus of this section is on disbursements processing.

As agencies gain proficiency in evaluating accounting/financial systems, they should expand their review to include each of the subsystems which comprise the expenditure cycle, e.g., purchasing, travel claims, construction contracts, interagency purchases, grants, petty cash, electronic data interchanges, etc.

### Overriding control objectives - Ensure that:

* All expenditures are lawful, properly authorized, and represent a responsible and appropriate use of State funds.
* All expenditures are for goods or services where the full value of such goods and services was actually received.
* Obligations for goods and services are paid in a timely manner as required by law or contractual terms, in sufficient time to take advantage of early payment discounts.
* All expenditures are sufficiently documented, accurately and completely recorded, charged to the proper accounting period (fiscal year) and properly classified as to category of expense.
* Accounts payable are properly classified by type (due to other funds, due to other governmental agencies, etc.). If yearend accrual entries involve accounting estimates, the estimates are reasonable and sufficiently documented.

### Applicable statutes, rules, policies, and procedure manuals

* Montana Code Annotated
* Statewide purchasing polices issued by State Procurement Bureau within DOA
* MOM category 300
* Montana Administrative Rules
* SABHRS manuals and guides
* *[Agency-specific standards and procedural manuals]*

### Automated information systems in use

* SABHRS
* *[Agency-specific systems and interfaces]*

### Key reports

Control and Requestable reports:

* APY1010 Voucher Register
* APY1020 Posted Voucher Listing
* APY2000 Payment History by Vendor
* MTAP1701 Voucher Status Report
* MTGL7008 Trial Balance - Fund
* GLS7002 General Ledger - Activity
* GLS3000 Open Items
* MTGL0106-O Organizational Detail Report - Org
* MTGL0106-P Organizational Detail Report - Project
* MTGL0111-O Organizational Summary
* MTGL0111-P Organizational Summary Report - Project
* GLS8020 Budget Status Report
* MTGL\_APPROP\_BUDGETS\_AND\_BAL Appropriation Budgets and Bal
* MTGL\_ORG\_BUDGETS\_AND\_BAL Org Budgets and Bal
* GLS7011Journal Edit Errors
* GLC7501Journal Entry Detail
* FIN2001Journal Entry Detail
* MTGL1101 Inter-Unit Journal In-Progress

*Other reports:*

* [Agency-specific systems and interfaces]

### Questions for determining risk

* Are employees required to attend training on the agency’s purchasing, contracting and disbursements policies?
* Does a hierarchy exist which distinguishes the types of payments and the type of review or approval required for each payment type based upon dollar threshold or program specific concerns?
* How does the person responsible for approving the payment know that the goods or services were received or were provided in accordance with contract specifications?
* What procedures are in place to make certain that employees routinely check for the availability of appropriate Statewide Price Agreements?
* What procedures are in place to ensure that all items purchased using PRO cards were authorized and are appropriate?
* Do strong cut-off procedures exist to ensure that unbilled goods/services received prior to year-end are properly recorded as expenditures for the current fiscal year?
* Are there any individuals who have both recordkeeping and approval responsibilities?
* Are there any individuals handling cash disbursements that also have duties related to cash receipts or the reconciliation of bank statements?
* Are bank statements delivered unopened directly to general accounting? Are warrants/checks compared in appropriate detail to the disbursement records? Is the numerical sequence of warrants/checks accounted for?
  + - Is the bank statement reconciliation reviewed, approved and signed by a manager who has no responsibility for cash receipts or disbursements?
    - Is there periodic investigation of warrants/checks outstanding for a considerable time?

### Questions the approving officer should answer

* Are there adequate budget resources available now to allow me to incur this obligation?
* Will this obligation or expenditure pass the "public perception" test? That is, would I be comfortable if I saw this transaction written up on the front page of the local newspaper?
* Am I willing to approve this obligation knowing that I am fully responsible?

### Documentation

Describe the processing activities, both manual and automated, and the document flow. Identify control check points and control activities. Use either a narrative approach or provide flowcharts and diagrams, or a combination of both.

*The narrative and flowchart which follow are provided as examples only*. Their purpose is to give agencies a starting point. Agencies **must** modify them as necessary to document their own processing activities.

| **Disbursements Processing – Narrative** | | | |
| --- | --- | --- | --- |
| Operational Units/Sections | | Activities | Documents, Reports, Screens |
| ***Delegation of Authority*** | | | |
| Agency Executive Staff | | **Agency director** determines delegation of expenditure authority. Signature delegation forms completed/submitted to Financial Services – Disbursements Unit. Copies maintained in Business Unit offices. Delegation forms updated as personnel are hired or depart or duties change. | Approved Signature List |
| ***Document Matching, Coding and Payment Authorization*** | | | |
| Agency Business Units | | **Vendors** instructed to mail/deliver invoices to Business Units responsible for initiating and approving payment. | Vendor invoices |
| **Incoming mail**, including invoices, date stamped upon opening. |
| **Business Unit administration (admin)** **staff** performs 3-way match: invoice, receiving record and, if applicable, purchase order/other purchasing authorization. | Voucher package (invoice, receiving record, purchase authorization; other supporting documentation) |
| **Admin staff** verifies accuracy of invoices; documents any adjustments to invoice totals; calculates applicable discounts; completes coding block. |
| **Admin supervisor** reviews voucher package to ensure State and agency purchasing rules have been followed. Notifies Bureau Chief of any noncompliance. |
| **Bureau Chief or Supervisor** with signature authority reviews voucher package for appropriateness and completeness; adds explanation for unusual items; and signs approval for payment. |
| **Final Document Review, Data Entry and Release for Payment** | | | |
| Agency Disbursements Unit | | **Documentation group** reviews voucher packages; verifies authorized signature; verifies coding, including correct 1099 status and compliance with capitalization policies; documents any changes and communicates with Business Unit; verifies account codes; prioritizes payments based on established criteria. | Voucher packages |
| **Data entry group** enters payment information into system. Selects and inputs due dates to maximize cash management. Payments are flagged for return to Disbursements Unit ***only*** when special handling is required. | Invoice batches/data entry screen |
| **Authorization group** reviews accuracy of document input. Releases batches for payment. | Online authorization |
| Operational Units/Sections | | Activities | Documents, Reports, Screens |
| **Accounting System - Data Processing** | | | |
| Information Systems Unit | Unique **operator ID numbers** and **user classes** are assigned to each person with access to accounting system. Each invoice is uniquely identified by **batch ID, batch date and document number.** | | Data processing files and control reports |
| System posts A/P; records expenditures; and issues warrants/checks on due date. | | A/P and general ledger reports |
| Warrants/checks flagged for special handling are returned to Disbursements Unit.; otherwise, warrants/checks mailed directly to vendor from warrant writing unit. | | Warrants/checks |
| **Checks Requiring Special Handling and Archiving** | | | |
| Disbursements Unit | Non-mailer warrants/checks matched to remittance advice and mailed, or held for pick up by Business Unit. Stored in locked safe overnight. Signature of Business Unit employee obtained when warrant/check picked up. | | Warrants/checks |
| Paid voucher packages forwarded to **Archiving Unit** for imaging (or maintained in records center, as appropriate). | | Paid voucher packages |
| Compliance Auditing | | | |
| Financial Services Staff | **Financial Services employees** not involved in purchasing functions, accounts payable or disbursements processing perform quarterly audits to ensure agency expenditures:  Comply with state/agency expenditure guidelines and purchasing policies, including Statewide Price Agreements;  Are approved by personnel with appropriate authority; and  Are properly coded for accounting and program purposes. | | Electronic transactions file and imaged documents |

PO or

Other

Purchase

Authorization

Receiving

Document

Invoice

Voucher

Packaged

documentation

Post A/P; record

expenditures;

issue warrants/

checks on due

date

Warrants/

Checks

BUSINESS UNITS

Voucher

Package

Invoice

Batches

Flagged for

return to A/P?

Warrants/checks

matched with

remittance or held

for pick-up by

department

Warrants/checks

mailed directly to

vendor

Yes

No

DISBURSEMENTS

UNIT

ACCOUNTING

SYSTEM

Expense

Accts Payable

Cash

Review

accuracy of

data input;

release for pmt

Match

documents,

check accuracy,

code

Manager review

and approval

Review

& verify SABHRS

Coding,

prioritize pmts

Enter invoice

batches into

system; select/

input due dates

**DISBURSEMENTS PROCESSING**

**FLOWCHART**

DoA

DoA

## Revenue cycle - The focus of this section is on cash receipts and accounts receivable processing.

As agencies gain proficiency in evaluating accounting/financial systems, they should expand their review to include each of the subsystems which comprise the revenue cycle, e.g., interagency receivables, NSF checks, customer refunds and credits, liquidated and delinquent accounts, electronic funds transfers, etc.

### Overriding control objectives - Ensure that:

##### Cash Receipts

* + - Procedures for handling and processing cash receipts are carefully designed, well-documented and clearly communicated.
    - No one person is allowed to handle a cash transaction from beginning to end. Responsibilities for collection are adequately segregated from those for recording cash receipts and general ledger entries.
    - Cash receipts are safeguarded at all times. The cash collection function is centralized to the extent possible. Cash receipts are immediately secured, control totals developed, and collections deposited daily intact. Any exceptions must conform to the requirements established by MOM category 300.

##### Accounts Receivable

* + - An accounts receivable transaction is recorded only when goods/services have been provided or a claim established and corresponding earnings are measurable.
    - The method of recognizing accounts receivable and the corresponding revenue (including year-end accrual procedures) is consistently applied.
    - Receivables are accurately recorded in the appropriate accounting period (fiscal year), properly classified as to type (due from other funds, due from other governmental agencies, etc.), and properly classified between short-term and long-term.
    - Detail subsidiary ledger records are accurately maintained and protected from unauthorized manipulation. Billings, adjustments and collections are properly recorded in individual receivable accounts. The subsidiary ledger records are reconciled to the general ledger control account.
    - Billing documentation (such as delivery records, purchase orders, copies of judgments) is independently maintained and not accessible to parties outside of the billing function, especially those who might have access to cash collections or the detail records of parties being billed.

##### Sales Income and Other Revenues

* + - All revenues are recognized as soon as they are measurable and available.
    - All revenues are accurately and completely recorded in the proper accounting period (fiscal year) and they are properly classified according to source.
    - Appropriate records are maintained for all businesses, users of government services, and individuals or entities against whom taxes or fees are assessed.
    - Charges for goods, services, licenses/permits, taxes, etc. are promptly and accurately billed. Self-assessed taxpayers are properly monitored. Exemptions are provided only to those authorized.
    - Interest and penalties on delinquent taxes, past due licenses/permits, etc. are properly calculated and timely billed.

### Applicable statutes, rules, policies, and procedure manuals

* + - * + Montana Code Annotated
        + Statewide purchasing polices issued by State Procurement Bureau within DOA
        + MOM category 300
        + Montana Administrative Rules
        + SABHRS manuals and guides
        + [Agency-specific standards and procedural manuals]

### Automated information systems in use

* + - * + SABHRS
        + [Agency-specific systems and interfaces]

### Key reports

* + - * + Control and Requestable reports:
        + AR20001 Deposit Control By Entry Date
        + AR20003 Payment Summary
        + AR32000 Customer Statements
        + AR35000 Finance Charges
        + MTAR\_ITEMS\_BAL Customer Balances
        + MTAR\_ITEMS\_DIST Item Distribution for Customers
        + MTAR AGEBU Business Unit Aging Report
        + MTGL7008 Trial Balance - Fund
        + GLS7002 General Ledger - Activity
        + GLS3000 Open Items
        + MTGL0106-O Organizational Detail Report - Org
        + MTGL0106-P Organizational Detail Report - Project
        + MTGL0111-O Organizational Summary
        + MTGL0111-P Organizational Summary Report - Project
        + MTGL\_REVEST\_BUDGETS\_AND\_BAL Reports Budgets and Balances

*Other reports:*

*[List agency subsystem reports]*

### Questions for determining risk

##### Segregation of Duties

* + - * + Are responsibilities for cash receipts adequately segregated from those for handling cash disbursements and reconciliation of bank statements?
        + Are responsibilities for billing for services and fees adequately segregated from those for collecting and recording cash receipts?
        + Are responsibilities for collecting cash receipts and deposit preparation adequately segregated from those for maintaining detail accounts receivable and posting general ledger entries?

##### Cash Receipts

* + - * + Is a secure area provided for opening mail and processing incoming cash receipts? Is it restricted to authorized personnel only? Is it locked when not occupied?
        + Is the mail opened in the presence of two or more employees? Are checks restrictively endorsed as soon as received? Are cash receipts secured in a cash drawer, vault, etc.?
        + Are each day’s receipts deposited intact, even if proper disposition is unknown?
        + Are pre-numbered receipts, a cash register or equivalent method/mechanism used to control the receipt of cash payments made in person? Are copies of the receipts, cash register tapes or other records accounted for and balanced to daily collections?
        + Is timely notice of cash receipts from separate collection centers given to central accounting and are reported receipts compared to general accounting records?
        + Is all pertinent information related to cash receipts maintained, such as deposit tickets, remittance advices, copies of receipts and other memoranda.

##### Accounts Receivable

* + - * + Do accounts receivable procedures include reconciling aggregate collections on accounts against postings to individual receivable accounts?
        + Are adequate records maintained to assure correct handling and final disposition of items posted to a suspense account? Is every effort made to ensure that fund distribution is immediately determinable?
        + Are “not sufficient funds” (NSF) checks delivered to someone independent of those who process and record cash receipts or reconcile bank statements?
        + Are all non-cash credits to customer accounts initiated by the program unit and authorized by a financial services manager who has no responsibility for recording the credits?
        + Are disputes of billing amounts reported by taxpayers or service recipients investigated by individuals independent of accounts receivable recordkeeping?
        + Is there an independent periodic review of accounts receivable for credit balances?
        + Sales Income and Other Revenues
        + Are periodic physical counts of merchandise inventory taken by individuals who do not maintain the inventory to assure all sales of merchandise are recorded? Are all credit entries to the inventory control account (other than sales transactions) reviewed by the internal audit unit or the chief fiscal officer?
        + For sales of items controlled by serial numbers (permits, licenses, tickets, food stamps, etc.), is the number of items issued reconciled to the number of items available for issue and sold by an individual not involved in sales and collections?
        + Are revenue accounts analyzed for unusual fluctuations by comparing to prior year data, multi-year trends, forecasts, and other monthly internal reports?
        + Are procedures in place that ensure that records are organized and integrated in such a way that probable taxpayers, licensees, etc. are identified as the result of other governmental activities?
        + Are databases updated for new registrants and withdrawals and are the updated records used as the basis for billing for annual licenses, fees and permits?
        + Are amounts collected on behalf of other governmental units segregated and timely remitted?

##### General Controls

* + - * + Are detailed receivable records reconciled to the GL control account and are reconciling items investigated by someone other than accounts receivable personnel?
        + Are bank statements delivered unopened directly to general accounting? Does the general accounting unit compare deposits per bank statement to cash receipts entries as part of its bank reconciliation procedures?
        + Is the bank statement reconciliation reviewed, approved and signed by a manager who has no responsibility for cash receipts or disbursements?

### Documentation

Describe the processing activities, both manual and automated, and the document flow. Identify control check points and control activities. Use either a narrative approach or provide flowcharts and diagrams, or a combination of both.

*The narrative and flowchart which follow are provided as examples only*. Their purpose is to give agencies a starting point. Agencies **must** to modify them as necessary to document their own processing activities.

| **Cash Receipts/Accounts Receivable Processing – Narrative** | | |
| --- | --- | --- |
| Operational Units/Sections | Activities | Documents, Reports, Screens |
| **Processing Over-the-Counter Receipts** | | |
| Program Unit | 1. **Program unit cashier** uses cash register to process payments received over-the-counter; a single cash register is authorized and in use. 2. Cash register is locked and cannot be turned back. 3. Checks restrictively endorsed upon receipt. 4. **Administration (admin) staff supervisor** counts daily receipts and balances to register. Register tapes retained and filed chronologically by **admin support staff** with no cashiering responsibilities. 5. **Admin staff supervisor** forwards register report/readings with daily receipts to Cashiering unit for recording and deposit. | Over-the-counter receipts and cash register tapes, readings and report |
| **Processing Mailed Receipts** | | |
| Mailroom | 1. Payment notices, applications and other forms instruct customers to mail payments for licenses, permits, etc. to **designated PO boxes**. 2. Contents of PO boxes delivered by DOA to **agency mailroom**. 3. Envelopes are examined for suspicious packaging; then run through automatic opening machine only; contents are not removed. Opened envelopes are delivered immediately/directly in locked containers to Cashiering unit (secured area) for processing. | Mailed remittances |
| Cashiering Unit | 1. Checks, payment coupons, license applications, etc. are removed from remittance envelopes in presence of two or more **Cashiering unit** employees. Upon removal, checks are immediately **restrictively endorsed**. Payments are sorted into batch types. Coupons, applications, etc. are date stamped. |
| **Entering Receipts into System** | | |
| Cashiering Unit | 1. **Cashiering personnel** scan *all* checks and bar coded coupons and remittance advices into cashiering system. Non-bar coded documents are keyed into system. Over-the-counter receipts are keyed into system from data provided by cash register report. 2. Checks from new customers or checks without a remittance advice are credited to **suspense account** for later disposition. | Cash receipts batches/scanning device/data entry screen |
| 1. **Cashiering supervisor** runs tape of checks/currency ready for deposit and compares to total dollars per batch summary sheets (including credits to suspense account). Reviews accuracy of other data input. Releases batches for processing when all errors are cleared. | Online Authorization |

|  |  |  |
| --- | --- | --- |
| **Cash Receipts/Accounts Receivable Processing – Narrative** | | |
| Operational Units/Sections | Activities | Documents, Reports, Screens |
| Cashiering Unit | 1. Coupons, license applications, etc. are forwarded to program unit for appropriate action and archiving. | Coupons, license applications, other customer paperwork |
| **Making Deposits** | | |
| Cashiering Unit | 1. Receipts are deposited daily intact. **Cashiering personnel** prepare the deposit slips in triplicate. 2. **Cashiering supervisor** reviews deposit totals to ensure they match batch totals (including credits to suspense account). 3. **Cashiering supervisor** physically secures deposit in locking deposit bag. Deposit is kept in locked safe until picked up by armored car each afternoon. 4. Second copy of deposit slip is forwarded to GL Accounting unit. Third copy is kept on file in Cashiering unit, along with batch sheets and cash register reports. | Daily cash receipts; deposit slips |
| **System Processing** | | |
| Information Systems Unit | 1. Cash receipts data from the Cashiering system and billing information from the Program unit’s internal system are separately interfaced to the accounting system; the accounting system uploads the information and automatically updates detailed A/R records. 2. **Batch balancing** controls and procedures (total documents, total items and total monetary amounts) are in place. 3. Unique **operator ID numbers** are assigned to each person with access to the accounting system or the cashiering and billing subsystems. The systems maintain logs of user activity for those individuals with “update” capabilities. 4. Input documents are uniquely identified by **batch ID, batch date and document no**. | (1) Data processing files and control reports; (2) A/R and cash receipts activity reports |
| 1. **Invoice numbers** are automatically generated in sequence. Once posted; invoiced amounts can be adjusted only through a credit memo or authorized adjustment transaction. | Invoices |
| GL Accounting Unit | 1. Personnel in **GL accounting unit**, with no responsibilities for cash receipts, billing or account receivable functions, maintain valid value tables (e.g., accounting codes, taxes and fee rates). | Value table reports |
| **Accounts Receivable Maintenance** | | |
| Accounts Receivable Unit | 1. **Accounts receivable (A/R) unit** reconciles aggregate collections on accounts receivable against postings to individual receivable accounts. 2. **A/R unit** investigates/resolves suspense account items and posts to appropriate A/R detail records 3. **A/R unit** is responsible for updating the customer database. 4. **A/R unit** reviews aging reports and follows up on past due accounts. Monthly, the accounts receivable aging report is independently reviewed by the Financial Services manager and the Program unit. 5. All non-cash credits processed by the **A/R unit** are initiated by the Program unit and approved by the Financial Services manager prior to processing. | A/R listings, aging reports, customer database reports |
| **Mailing Invoices/Customer Questions** | | |
| Accounts Receivable Unit | 1. Invoices are automatically prepared and printed as the result of the billing interface and delivered to **A/R unit** for mailing. | Invoices |
| Program Unit | 1. Undeliverable mail is returned to the **Program unit**; customer questions and complaints are directed to the Program unit. |
| **General Control Activities** | | |
| General Ledger Accounting Unit | 1. **GL accounting unit** compares payments received in cashiering system to payments posted to general ledger and reconciles detailed agency receivable records to GL control account. 2. Bank statement is delivered unopened directly to GL accounting. **GL accounting unit** compares deposit detail to bank statement as part of bank reconciliation process. 3. Bank statement reconciliation reviewed, approved and signed by **GL accounting manager**. 4. **GL accounting unit** controls monthly closing process/roll forward, so no transactions can be posted inappropriately to a prior period. | (1) A/R and cash receipts activity reports; (2) general ledger reports; (3) bank statements and copies of deposit slips; (3) systems control reports |
| General Ledger Accounting Unit | 1. **GL accounting unit** periodically reviews the number of licenses, permits, etc. issued with revenues collected; other revenues types are compared to prior year data and multi-year trends. | Licenses/permits activity reports |
| Program Unit | 1. **Program unit** reviews (1) A/R aging report, (2) a report of all non-cash credit adjustments processed for month, and (3) a report of customer accounts with ending credit balances. | A/R aging report; credit adjustments and credit balance reports |

Cash Receipts and Accounts Receivable Processing -- Flowchart



| **[Agency Name]**  **Cash Receipts/Accounts Receivable Processing**  **Control Findings**  **June 30, 2XXX** | | |
| --- | --- | --- |
| Strength/Weakness | | Explanation |
| S-1 | Cash register used for over-the-counter receipts | Cash register (locked; cannot be turned back) used to process over-the-counter receipts. Register tape and register readings balanced to daily collections by Admin staff supervisor, who has no responsibility for cashiering duties. |
| S-2 | Mail handling procedures | Remittances are mailed to designated PO boxes. DOA picks up mail; delivers to agency mailroom. Mailroom examines for suspicious packaging; then slits open automatically. Slit mail immediately/directly delivered to Cashier Unit (in a secured location) in locked container. Contents removed in presence of two or more cashiering employees. Checks immediately restrictively endorsed. |
| S-3 | Daily collections deposited intact, even if disposition unknown | Processing of checks from new customers or checks without remittance advice is not delayed. Deposited with other receipts collected for that day and credited to a suspense account for later resolution by A/R unit. |
| S-4 | Independent verification of cash receipts batches and deposits | Cashiering supervisor reviews accuracy of data input, verifies deposit amount, compares totals to batch summary sheets (including credits to suspense account), and releases batches for processing. |
| S-5 | Responsibilities for cash collection and deposits segregated from A/R record keeping | Cash receipts information maintained in separate cashiering system; data is uploaded to accounting system, which automatically updates detailed receivable records. |
| S-6 | Billing documentation independently maintained; not accessible to others. | Billing information initiated in and maintained by Program unit. Billing information uploaded to accounting system, which automatically updates detailed receivable records and generates customer invoices. |
| S-7 | Control over invoices and credit memos | Invoices automatically generated in sequential order as result of billing system upload. Once posted to accounting system; invoiced amounts cannot be changed; can be adjusted only by authorized credit memo or adjustment transaction.  Program unit reviews report of all non-cash credit adjustments posted for month and listing of accounts receivable with credit balances. |
| S-8 | Undeliverable mail and customer questions | Returned mail containing invoices and customer questions directed to Program unit for resolution. |
| S-9 | Performance of independent reviews comparisons, and reconciliations | GL accounting unit (1) reconciles A/R detail records to GL control account; (2) compares deposit detail to bank statement; (3) reconciles bank statement; (4) performs year-to-year revenue comparison; (5) reviews number of permits/licenses issued to revenues collected. |
| W-1 | Controls over customer database | A/R unit updates customer database. To reduce the possibility of fraudulent activity, update capabilities should be limited to specific personnel within the A/R unit who have no responsibilities/no system access for posting cash receipts, credit memos or other adjustments to the detail receivable records. |

## Payroll cycle - The focus of this section is on the payroll transaction cycle.

This cycle includes authorization to update the SABHRS for new and terminated employees and wage/salary adjustments; the recording of daily work time and attendance by employees; supervisory review and approval of time records; data input into the central payroll system; monthly payroll processing and paycheck preparation; and paycheck distribution. Agencies may also decide to review in greater detail the related processes, e.g., employee receivables resulting from overpayments.

### Overriding control objectives

* + - * + No payments are made to fictitious employees.
        + No overpayments are made to bona fide employees.
        + Payroll related expenses are properly accrued and classified in the financial statements.

### Applicable statutes, rules, policies, and procedures

* MCA 2-18-401
* MCA 2-18-402
* MCA 2-18-404
* MCA 2-18-405
* MCA 2-18-603
* MCA 2-18-611
* MCA 2-18-618
* Federal Tax Table Data
* Fair Labor Standards Act
* HB 13 (When Applicable)
* MOM Category 300
* SABHRS Manuals
  + - * + *[Agency-specific standards and procedural manuals]*

### Automated information systems in use

* + - * + SABHRS
        + *[Agency-specific systems and interfaces]*

### Control and Requestable reports

* MTTL1202 & MTTL1202P Time Validation Reports
* MTTL1204 – Agency Payroll verification

         PAY 002 Payroll Register

         PER013 Employee Compensation Changes

         MTBA2101 Leave Accrual

         PAY001 Deduction Register

         MTPY5105 Pay Rate Audit

         MT\_TL\_RPTD\_HRS\_MORETHAN\_80

         MT\_TL\_NO\_PAYABLE\_TIME

         MTCP\_TL\_TTL\_HRS\_BY\_PAYBLE\_STAT

         MT\_TL\_TTL\_RPTLHRS\_ SUBM\_ APPR

### Questions for determining risk

##### Segregation of Duties

* + - Are responsibilities for personnel (human resources), time recording and supervisory review, payroll processing/paycheck preparation, paycheck distribution and general ledger functions assigned to provide a division of duties?
    - Are responsibilities for payroll processing adequately segregated from the general ledger function?
    - Is payroll distribution supervised by employees, who:
      * Take no part in timekeeping (data input) and payroll processing/paycheck preparation?
      * Have no update access to the SABHRS?
    - Is reconciliation of the payroll bank account done regularly by employees independent of all other payroll transaction processing activities?

##### Personnel Controls

* + - Do personnel procedures and controls include the following?
      * All changes in employment (additions and terminations), salary and wage rates, and payroll deductions are properly authorized and documented.
      * Payroll processing function is promptly notified of additions, separations, changes in salaries/wages and deductions.
      * Appropriate records are maintained for accumulated employee benefits (vacation, sick leave, etc.).

##### Time Recording/Supervisory Controls

* + - Do time recording/supervisory procedures and controls include the following?
      * Maintenance of detailed records of hours worked and approved, when appropriate.
      * Procedures established to ensure that supervisory personnel verify hours worked, including overtime hours.
      * Written procedures for authorizing, approving and recording vacation, holidays, sick leave, personal business leave, shift differential, etc. and for approving and controlling compensatory time.
      * Procedures established for timekeeping (inputting time and attendance into payroll system).
      * Additional timekeeping procedures that include reviewing time records for supervisor’s approval and completeness and accuracy.

##### Payroll Processing Controls

* + - Do payroll processing procedures and controls include the following?
      * Approval and documentation of all changes to the master payroll file.
      * Limiting access to the master payroll file to employees who are authorized to make changes.
      * Review and approval of completed payroll registers before disbursements are made.
      * Review for reasonableness of comparisons of gross pay for current to prior period payrolls by a knowledgeable person not otherwise involved in payroll processing.
      * Balancing the distribution of dollars and hours of gross pay with payroll registers.
      * Procedures to ensure that requests for payroll advances to officials and employees comply with policy.

##### Payroll Disbursement and Paycheck Distribution Controls

* + - Do payroll disbursement procedures and controls include the following?
      * Strong encouragement for all employees to receive payroll disbursement through “direct deposit” to their bank account or through prepaid payroll cards.
      * Controls to secure the signature plates and payroll check-signing machines.
      * A log is maintained to reconcile the counter on the check-signing machine with the number of checks issued.
      * A separate payroll bank account is maintained.
      * The payroll bank account is reconciled by someone independent of payroll processing.
      * The supply of unused payroll checks is secured.
      * A formal process to control and dispose of unclaimed paychecks.
      * A formal process to control and verify returned W-2s.
      * Review and approval of gross pay adjustment report by non-payroll manager before paychecks and direct deposit stubs are distributed to employees.
      * Distribution of paychecks and direct deposit stubs by non-payroll staff.
      * Periodic distribution of payroll checks by the internal auditors or other independent party, to ascertain employees exist for all checks prepared.

##### General Ledger Controls

* + - Do general ledger procedures and controls include the following?
      * Adequate account coding procedures for classification of employee compensation and benefit costs, so such costs are recorded in the proper general ledger account.
      * Proper recording or disclosure of accrued liabilities for unpaid employee compensation and benefit costs.
      * Reconciliation of payroll data posted to general ledger to the payroll reports.

##### Controls Related to Grants

* + - Do payroll and personnel policies/controls include the following?
      * + Controls to ensure that payroll costs charged to grants are in compliance with grant agreements.
        + Payroll and personnel policies governing compensation are in accordance with the requirements of grant agreements.

### 

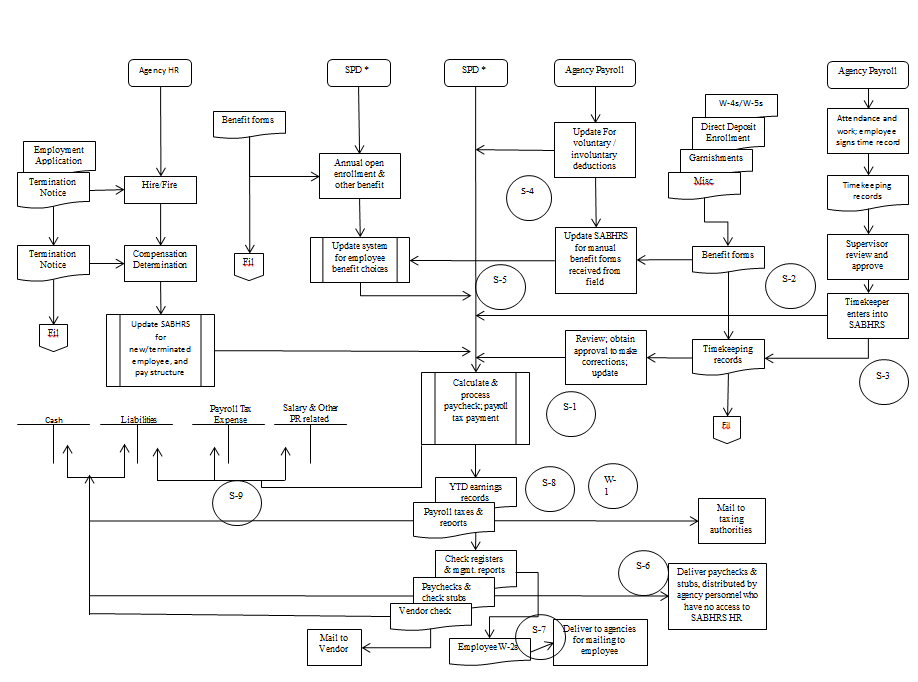
### Documentation

Describe the processing activities, both manual and automated, and the document flow. Identify control check points and control activities. Use either a narrative approach or provide flowcharts and diagrams, or a combination of both.

*The narrative and flowchart which follow are provided as examples only*. Their purpose is to give agencies a starting point. Agencies **must** to modify them as necessary to document their own processing activities.

| **Payroll Processing – Narrative** | | |
| --- | --- | --- |
| **Operational Units/Sections** | **Activities** | **Documents, Reports, Systems** |
| **Initiating Transactions in Personnel Database** | | |
| Agency Human Resources Unit | 1. **Human resources unit** consults with hiring manager on salary/wage rate, any special hiring conditions and/or contractual obligations related to open position. Upon acceptance of job offer, hiring manager completes hiring form and forwards to human resources unit to add employee to **SABHRS.** | (1) Applications, union contracts, Personnel Action forms, disciplinary documentation; (2) SABHRS |
| 1. **Human resources unit** also serves as a consultant to management for disciplinary problems and provides counsel concerning warnings, probation and termination. Upon termination or resignation, employee’s manager completes form and forwards to human resources unit to remove employee from active status in **SABHRS.** |
| 1. Only State Human Resources Division (SHRD) at DOA and agency HR personnel have access to update SABHRS and then transmit employee status and pay rate information to the central payroll processing system. |
| 1. **Human resources unit** provides timely notice of new hires and terminations/resignations to payroll processing unit. |
| Supervision and Timekeeping | | |
| Agency Business Units | 1. **Employees** record time worked/attendance using manual timesheets or the electronic time capture system. Employees are required to sign manual timesheets. | (1) Manual time records; (2) electronic time capture system, SABHRS Employee Self Service |
| 1. **Supervisors** timely review and approve time records, verifying hours worked, (including overtime hours). Supervisors also verify that holidays, sick leave, vacation, etc. have been appropriately recorded. Supervisors indicate approval by signing manual time records or by approving the electronic record. Manual timesheets are forwarded directly to the timekeeping function. |
| 1. **Timekeepers** manually input time/attendance data from manual timesheets into the central payroll processing system on SABHRS**.** Timekeepers enter approved time records only. Correction of errors must be reviewed and approved by the appropriate supervisor. 2. NOTE: Timekeeping function (data entry) may also be performed by agency payroll unit and into an agency system. |
|  | 1. **Work time/attendance** entered and **“locked”** in the electronic time capture system is automatically interfaced to SABHRS. |  |
| Agency Payroll Processing | | |
| Agency Payroll Unit | 1. **Payroll unit** processes W-4s/W-5s, direct deposit enrollment forms, garnishments and other **miscellaneous deductions** and updates SABHRS; payroll unit has established procedures to ensure timely payment/accurate calculation of garnishments, child support and similar deductions. | (1) Documentation for voluntary and involuntary deductions, benefit forms, expense reimbursement claims, time records; (2) SABHRS |
| 1. **Payroll unit** also processes **manual benefit forms** received from field office locations and enters data into SABHRS. |
| 1. **Payroll unit/accounts payable unit** have established procedures to ensure **expense reimbursement claims** processed through payroll represent bona fide business expenses and not additional income. |
| 1. **Payroll unit** reviews time/attendance records, YTD accumulated payroll information, and control reports for errors and obtains appropriate approvals to make **corrections** and update SABHRS. |
| 1. **Payroll unit** has established procedures to ensure **documentation** of time records, misc. deductions, salary changes, garnishments, adjustments, etc. is retained in accordance with **state retention guidelines**. |
| Central Payroll Processing | | |
| Central Payroll Processing Unit | 1. **State Payroll and the SABHRS bureau** at DOA processes bi-weekly payrolls. Personnel and voluntary/involuntary deductions are entered directly into SABHRS by agency payroll units. | (1) SABHRS Employee Self Service, access controls, reasonableness limit tests; (2) paychecks & direct deposit pay stubs; (3) YTD earnings records, tax reports, W-2’s, other control reports |
| 1. **Access to SABHRS** controlled by separate **Systems Security Officers**; passwords reset every 90 days; failed attempts to access SABHRS reported by system. |
|  | 1. **Batch control** requires manual override of net pay amounts over a set dollar amount; special report identifies paychecks more than 2 times monthly salary. |  |
| 1. **Checks and direct deposit stubs** delivered by central mail services to agencies and released only to agency personnel listed on log of approved signers maintained by SHRD. |
| 1. **Daily off-cycle checks** delivered only to authorized agency personnel (re-certified annually). SHRD personnel who process these payments cannot receive/distribute the checks. Check numbers assigned by the system and tracked/compared against check stock. |
| 1. **SHRD** reconciles YTD earnings records with quarterly/annual tax reports, W-2s and control reports. |
| 1. SHRD uses **CobiT standards** for authorization, documentation, testing and approval of system changes. |

|  |  |  |
| --- | --- | --- |
| **Paycheck Distribution and Related Processes** | | |
| Agency Payroll Unit and Business Units | 1. **Paychecks and direct deposit pay stubs** distributed to employees by agency personnel who have no update access to SABHRS no responsibility for manual timekeeping, and are not involved in payroll recordkeeping/paycheck preparation. | Paychecks & direct deposit pay stubs, check registers, unclaimed paychecks, returned W-2s |
| 1. **Payroll unit** distributes copies of **check register** to **managers** showing them employees paid under their authority and responsibility. |
| 1. **Payroll unit** has established formal processes to control and dispose of **unclaimed payroll checks** and verify **returned W-2s**. |
| **General Control Activities** | | |
| General Ledger Accounting Unit and Financial Services Units | 1. **SHRD personnel** compare payroll data interfaced from Agency systems to SABHRS using payroll reports. 2. **Agency financial services units** reconcile their payroll reports to postings in SABHRS and agency subsidiary accounting systems. | Payroll, general ledger reports, payroll reports, subsidiary system reports |



**[Agency Name]**

**Payroll Processing**

**Control Findings**

**June 30, 2XXX**

|  |  |  |
| --- | --- | --- |
| **Strength/Weakness** | | **Explanation** |
| S-1 | Segregation of duties | Responsibilities for initiating updates to the personnel database, recording work time/attendance and supervisory approval, payroll processing and paycheck preparation, and paycheck distribution are appropriately segregated. |
| S-2 | Timesheets forwarded directly to timekeepers | After manager reviews and approves timesheets, original copies are not returned to employees to avoid unapproved changes. |
| S-3 | Data integrity | Timekeepers input only approved timesheets into payroll system and obtain approval for adjustments and corrections from appropriate managers. |
| S-4 | Agency payroll unit review procedures | Agency payroll unit has established review procedures to ensure (1) deductions for garnishments, child support, etc., are timely paid and accurately calculated and (2) employees claims for expense reimbursement processed through payroll do not represent duplicate payments. |
| S-5 | Access controls to payroll system | Access to SABHRS controlled by separate Systems Security Office. Passwords reset every 90 days. |
| S-6 | Controls over paycheck distribution and data integrity | Paychecks/direct deposit stubs delivered directly from print to agencies by central mail services and released only to pre-approved agency personnel. Prior to distribution, the Gross Pay Adjustment report reviewed/signed by an agency manager not connected to payroll function. Paychecks/direct deposit stubs distributed to employees by non-payroll staff. |
| S-7 | Controls over unclaimed paychecks and returned W-2s | Agency payroll unit has established formal procedures to control and dispose of unclaimed payroll checks and to verify returned W-2s. |
| S-8 | Control over removal of terminated employees | Copies of check registers distributed to managers showing employees paid under their authority and responsibility. |
| S-9 | Performance of independent comparisons and reconciliations | State Payroll reconciles payroll agency fund and compares data posted in SABHRS to payroll reports. Agency financial services units reconcile their agency payroll reports to postings in SABHRS and agency subsidiary systems. |
| W-1 | Lack of statewide policy | The statewide accounting policy does not contain a payroll policy that requires all state agencies to distribute copies of the payroll register to managers for review. |

## Capital Assets - The focus of this section is on the capital assets.

The review will include agency duties regarding capital assets such as timely and accurate entry of information into SABHRS, analysis of asset balances, physical inventory, surplus equipment and control and distribution of property tags.

#### Overriding Control Objectives – To ensure:

* Assets and records are appropriately safeguarded.
* Adequate segregation of duties exists.
* Accountability is established as early as possible.
* Transactions and events are properly recorded.
* Periodic verification of the existence and condition of assets occurs.
* Compliance with asset reporting requirements.

#### Applicable Statutes, Rules, Policies and Procedure Manuals

* Montana Code Annotated
* Montana Administrative Rules
* Statewide purchasing policies issued by State Procurement Bureau within DOA
* MOM Category 300

#### Automated Information Systems in Use

* SABHRS Asset Management
* Other Internal Agency Systems

#### Key Reports

*Control and Requestable reports*:

* SABHRS ENTITYWIDE and ACTUALS Trial Balances
* AM\_NEG\_DEPR\_NBV\_LT\_SALVAGE Negative Depreciation query
* MTAM0001\_DONATED\_ASSETS\_BY\_BU Donated Assets by BU
* MTAM0002\_ASSET\_BY\_BU\_AND\_CLASS Asset by BU and Class
* MTAM0003\_ASSET\_BY\_BU\_\_\_LOCATIO Asset by BU & Location
* MTAM0004\_ASSET\_BY\_BU\_AND\_TAG\_\_ Asset by BU and Tag #
* MTAM0005\_EXPENSED\_ASSETS\_BY\_BU Expensed Assets by BU
* MTAM0006\_ASSET\_BY\_BUSINESS\_UNI Asset by Business Uni
* MTAM0007\_ASSET\_COUNT\_BY\_BU Asset Count by BU
* MTAM0008\_NEW\_OPEN\_TRANS\_ROWS New Open Trans Rows
* MTAM0009\_ASSET\_BY\_LOCATION Asset by Location
* MTAM0010\_ASSET\_SORT\_BY\_LOCATIO Asset Sort by Location
* MTAM0011\_BU\_LOCATIONS BU Locations
* MTAM0012\_SEARCH\_BY\_SERIAL\_ID Search by Serial ID
* MTAM\_ASSET\_COST Current Cost by BU, Fund
* MTAM\_ASSET\_LOCATION\_INVENTORY Asset Location Inventory
* MTAM\_ASSET\_LOC\_INV\_DISPOSED Disposed Asset Inventory with Location
* MTAM\_ASSET\_LOC\_INV\_NO\_DISPOSED Asset Inventory w/o Disposed
* MTAM\_GL\_RECON AM and GL Reconciliation
* SABHRS Data Mine

### Questions for Determining Risk

##### Segregation of Duties

* + - Are capital assets tagged and received by someone outside of individuals able to procure capitalizable items?
    - Are retired asset tags removed/destroyed by someone outside of procurement?
    - Does someone outside of procurement determine the continued usefulness of an asset prior to its disposal?
    - Does someone outside of individuals entering data on the Industry Inventory Tracking system perform inventory counts?

##### General Ledger Controls

* Is the ENTITYWIDE ledger periodically reviewed for reasonableness of asset increases/decreases?
* Is the ACTUALS ledger (or combined ACTUALS and ENTITYWIDE for modified accrual fund types) reviewed to determine whether 63XXX and 64XXX accounts have a corresponding NB Offset Account entry when the item is above capitalization thresholds?

### Documentation

*The narrative that follows is provided as an example only*. Their purpose is to give agencies a starting point. Agencies **must** modify it as necessary to document their own processing activities.

|  |  |  |
| --- | --- | --- |
| **Operational Units/Sections** | **Activities** | **Documents, Reports, Systems** |
| ***Procurement of Non-Control Items with a Total Contract Value of < $5,000*** | | |
| Agency Divisions | 1. **Employee** submits the procurement form electronically and submits it to their supervisor.   **Supervisor** signs the procurement request form, ensuring the request appropriate for their division. Items < $5,000 are then purchased at this point and per MOM 335, immediately expensed as this is lower than any capitalization thresholds.  The **Supervisor** may, but is not required, to work with **division procurement** to seek multiple solitarians for the item and to ‘lock in’ an item’s term or price via purchase order or other device. | State GSD Procurement Manual, Agency Purchasing Manual, Invoices, Pro-card Purchase Log, SABHRS |
| 1. Items costing less than $5,000 are generally paid for via **procurement card.** |
| ***Procurement of Non-Controlled Items with a Total Value of $5,000 to $25,000***  ***(NOTE: An agency MUST receive GSD permission to receive Level One Delegation Authority. Business Units without a Level One delegation MUST work with the DOA procurement bureau for items at or above this price level.)*** | | |
| Agency Divisions without Level One Authority | 1. **Employee** makes a request and has it reviewed/approved by their **supervisor**. | MOM 335, Purchasing Manual, Limited Solicitation Form, Purchase Orders, Invoices, SABHRS |
| 1. **Supervisor** submits the request to **division procurement officer** whodetermines the appropriateness of the purchase method andwill assign purchase order to the item requested. |
| 1. The **applicable division and personnel** work with their procurement officer to solicit a minimum of three bids. The division uses the “Limited Solicitation” form to help guide them through the initial process.   Unless other selection criterion exists, **the lowest bidder** is awarded the contract.  **Invoices** are submitted to **Contracts Division** along with support for proper entry/review of SABHRS data. (See Expenditure Cycle) |
| Legal/Financial Bureau Chief | 1. **Legal** must review all requests that require contracts or statements of work. |
| 1. The **Financial Bureau Chief** is responsible for tracking capital asset purchases for the entity. |
| ***Procurement of Items > $25,000*** | | |
| Staff/Procurement Office/Financial Bureau Chief | 1. **Department procurement bureau** is responsible for purchasing all assets above this level. Staff initiate the process through use of the Purchasing Request Form. The applicable **Bureau Chief,** in coordination with the **division** and **department procurement offices,** ensures all state and department purchasing policies are followed. | Purchase Request Form, Purchase Orders, State Requisition Form, SABHRS |
| 1. The **Financial Bureau Chief** is responsible for tracking capital asset purchases for the entity. |
| ***Procurement of Controlled Items, regardless of Cost*** | | |
| Procurement Office – Division & Department | 1. The **General Services Division** (GSD) retains control of specific purchases (controlled items) and the Department is required to purchase these items through GSD. Controlled items may be obtained through GSD in these ways: (1)Requisition Time Schedule; (2) Exclusive or Non-Exclusive Term Contracts; (3) Central Stores; (4) Printing; (5) Vehicles; or (6) Cooperative Purchasing.   In addition to the items listed above, the department has also identified other purchases that require specific approval and/or assistance by designated individuals or programs. These include Cellular Telephone service, Computer Hardware and Software, Telecommunications systems, and Photocopiers. Procurement and approval of these items are further addressed within this section. | Purchase Orders, State Requisition Form, SABHRS |
| 1. **Procurement officers** are aware of the control purchase requirements and will follow them accordingly. |  |
| Financial Bureau Chief | 1. The **Financial Bureau Chief**,when applicable,is responsible for tracking capital asset purchases for the entity. |  |

## Federal Grants - The focus of this section is on the federal grants transaction cycle.

## 

### Overriding Control Objective

* To ensure federal grant monies are expended in accordance with program requirements

### Applicable Statutes, Rules, Policies and Procedure Manuals

* Code of Federal Regulations (CFR)
* 2 CFR 225 Cost Principles for State, Local, and Tribal Governments (Formerly OMB Circular A-87)
* Catalog of Federal Domestic Assistance (CFDA)
* Cash Management Improvement Act (CMIA)
* Treasury-State Agreement (TSA)
* Office of Management & Budget (OMB) Circular A-133 Compliance Supplement
* MCA 17-1-106
* MCA 17-3-XXX (Whereas XXX = Multiple Statutes in Parts 1 & 2 of Chapter 3)
* MOM Category 300

### Automated Information Systems in Use

* SABHRS
* Other systems [e.g. - E-Grants, SNP, RASPS, GMS, Internal]

### Key Reports

*Control and Requestable reports*:

* SABHRS Trial Balance by Fund
* SABHRS Data Mine
* Individual System Reports
* SF - 425 Reports
* Grants Checklist

### Questions for Determining Risk

##### Compliance Related

* Are costs allowable within program guidelines?
* Are Davis-Bacon prevailing wages paid by contractors and subcontractors?
* Are contractors working on a project suspended or disbarred?
* Is the indirect cost rate applied to expenditures that allowed in the grant agreement?
* Are drawdowns in accordance with the Cash Management Improvement Act (CMIA) and the Treasury-State Agreement (TSA)?
* Is subreciepent monitoring adequate and functioning?

##### General Ledger

* Is the amount appropriately classified? (e.g. – Are subgrants from other primary government business units recorded as transfers-in opposed to receipts of revenue?)
* Are subgranted amounts received from other primary governments in line with historical expectations?

### Documentation

*The narrative that follows is provided as an example only*. Their purpose is to give agencies a starting point. Agencies **must** modify it as necessary to document their own processing activities.

|  |  |  |
| --- | --- | --- |
| ***Tracking of Program Expenditures and Allowability*** | | |
| Facility Staff/ Federal Grant Manager/ Grant Accountant | 1. **Staff** can request grants from various sources. **Staff** can begin the process of securing a grant through filing a request for funding form and submitting it to the **grants manager** for consideration. | Request for Funding Form, Grant Check List, SABHRS |
| 1. **Grant manager** works with **staff** to obtain grant funding available. The **grant manager** is cognizant of potential uses for grant funds and remains up to date on new grants which may be attainable to the department. |
| 1. **The grant manager, grant accountant,** and **program staff** meet to help ensure program compliance. New grants/grantees generally have a monthly meeting.   **Grant manager** spot checks expenditures to determine their allowability in terms of program guidelines |
| 1. **Facility staff, grant manager,** and **grant accountant** enter the data on the appropriate sub-system (SNP, E-Grants etc.) or reports required in order to receive program monies and to perform appropriate data reporting.   **Duties are segregated** among individuals to prevent data entry and approval by the same person. |
| ***Entry of Expenditures*** | | |
| Accounting | 1. **Accountant** performs initial upload of monetary amounts onto SABHRS, as necessary, based on data entries made on the sub-systems, invoices, reports, and other supporting documentation in consultation with **grants accountant**. | SABHRS |
| 1. **Other accountants** in the division review/approve the entry based on support received related to the transaction. |

## Budget and Planning - The focus of this section is on the budget and planning cycle.

### Overriding Control Objective

* To ensure compliance with Legislative intent over allowable expenditures in statute

### Applicable Statutes, Rules, Policies and Procedure Manuals

* MCA 17-7-111
* MCA 17-7-112
* MCA 17-7-138
* MCA 17-7-301
* MCA 17-7-304
* House Bill 2
* Other Appropriation Legislation (e.g. - HB 5, HB 10)
* MOM Category 300

### Automated Information Systems in Use

* SABHRS
* IBARS

### Key Reports

*Control and Requestable reports*:

* Budget Status Report
* SABHRS Trial Balances

### Questions for Determining Risk

#### Have all expenditures by program been analyzed for the appropriate period?

#### Have budget analysts noted expenditures vastly exceeding projections and if so, were such differences followed up on for reasonableness?

### Documentation

#### *The flowchart that follows is provided as an example only*. Their purpose is to give agencies a starting point. Agencies **must** modify it as necessary to document their own processing activities.



### Budget Analysts are assigned a program, by the Office of Budget and Program Planning (OBPP) designation, and track/review expenditures for the same

### Budget Status Reports (BSR) are run periodically to determine the reasonableness of past transactions

### Analysts determine whether Budget Change Documents (BCD) are required to be filed with OBPP to facilitate seamless and continued department functions

## Information Technology - The focus of this section is on the procurement of information technology items.

### Overriding Control Objective

* To ensure Information Technology Component procurement complies with state and department policies

### Applicable Statutes, Rules, Policies and Procedure Manuals

* MOM Category 300
* State Procurement Policy

### Automated Information Systems in Use

* SABHRS
* eMACS
* Internal Procurement Systems

### Key Reports

*Control and Requestable reports*:

* IT Procurement Tracking Sheet

### Documentation

*The narrative that follows is provided as an example only*. Their purpose is to give agencies a starting point. Agencies **must** modify it as necessary to document their own processing activities.

|  |  |  |
| --- | --- | --- |
| **Operational Units/Sections** | **Activities** | **Documents, Reports, Systems** |
| ***Initiating IT Procurement*** | | |
| Agency Business Units | 1. Employee submits the IT procurement form electronically and submits it to their supervisor. | (1) ITPR |
| 1. **Bureau Chief** submits the IT procurement request form, insuring the request fits within the scope of the Department’s strategic plans, via email to Service Desk or their designated procurement officer who will in turn submit to the Service Desk. If the cost of the request is greater than $2,500 Procurement Unit approval will be required. |
| ***Analysis and Decision*** | | |
| IT Staff | 1. The **IT Staff** perform the analysis process and work with **Business Personnel** to obtain the requirements. The analysis process first focuses on the problem, then recommends possible solutions. IT Staff informs the IT chief or his/her designee who determines if a DOA ITPR is needed. | (1) ITPR/DOA ITPR |
| 1. A mutual agreement between the **IT chief** and/or designee and the **Business Bureau Chief and/or Supervisor**. In case of a disagreement, that Division’s Administrator and/or the Department Management Team may intervene and appeal to the CIO. |
| ***Analysis and Approval*** | | |
| IT Staff/  Division Administrators/  Purchasing/  Legal Division | 1. **The IT Chief** decides and works with IT Staff to develop an ITPR and to determine the DOA State Procurement office’s involvement. When needed, the IT Staff will refer questions to DOA/SITSD’s Customer Relation Manager. The CIO or designee is responsible for sending the ITPR to DOA/SITSD when required by Montana Information Technology Act and becomes the point of contact for the ITPR. | (1) ITPR |
| 1. **Director and Division Administrator** must approve if the purchase price is over $2,500. |
| 1. **The IT Chief or Designee** works with Contracts Management Bureau to insure all procurement steps for purchases are followed. |
| 1. **Legal** must review all requests that require contracts or statements of work. |
| ***Purchase and Documentation Process*** | | |
| IT Staff | 1. **IT Bureau** is responsible for purchasing all information technology tools (hardware, software, etc.). The IT Chief insures all state and department purchasing policies are followed. | (1) ITPR |
| 1. **IT Staff** who made the purchase updates hardware or software inventory, or supplies the information to the IT staff responsible for maintaining the inventory. |
|  | 1. **The IT Chief** is responsible for updating DOA/SITSD’s excel spreadsheet, which will be located in IT Managers' shared folder. |  |
|  | 1. **The IT Chief** is responsible for forwarding the spreadsheet per DOA/SITSD standards on behalf of agency. |  |

Other cycles that exist for agencies to consider are, but are not limited to: Property Held-in Trust; Private Grants and Contracts; Employee Travel; Governing Board Expenditures