

COUNTY OF ALAMEDA

**INTERNAL CONTROL
STANDARDS**

ISSUED BY

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COUNTY OF ALAMEDA
INTERNAL CONTROL STANDARDS

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* Available as MS-WORD document.

I. PURPOSE

The main purpose of this publication is to prescribe internal control standards for all departments and agencies of Alameda County.

These standards will be revised from time to time to address changes in the County control environment.

The secondary purpose is to provide the tools for departments and agencies to establish and maintain these standards.

II. PUBLIC ACCOUNTABILITY

The Board of Supervisors and the County elected officials are accountable to their constituents, State officials and the public at large in conducting the affairs of the County. Department and agency heads are similarly accountable to the County Administrator and other appointing officials.

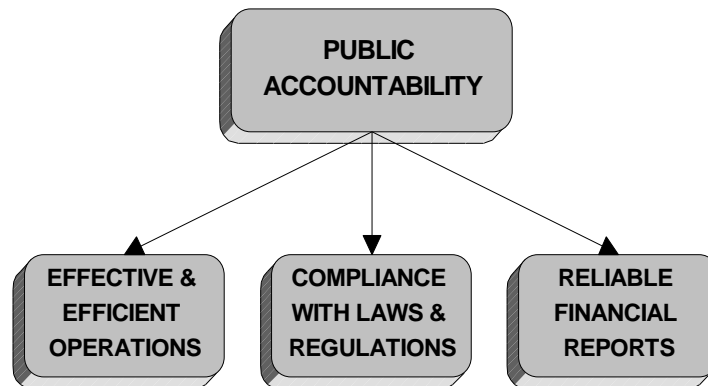
These various levels of accountability contain the same core elements, which form the essence of **public accountability**:

1. Effectiveness and efficiency of operations.
2. Compliance with applicable laws and regulations.
3. Reliability of financial reporting.

Elected officials and County management can obtain reasonable assurance that public accountability is achieved by maintaining strong internal controls within the County government.

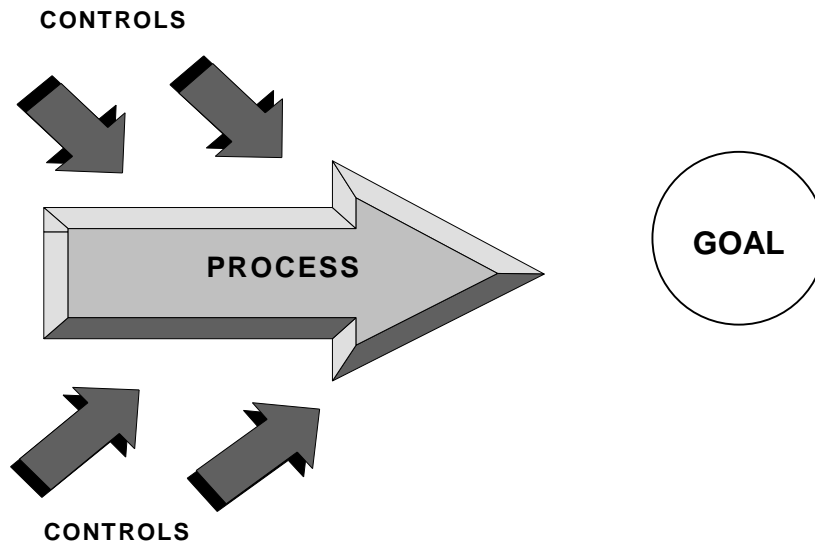
This publication prescribes standards of internal control that would help to achieve adequate public accountability.

The publication also recommends methods to develop and maintain the optimum level of internal control.



III. INTERNAL CONTROL STANDARDS

An internal control helps to achieve the goal of a process without being an necessary part of the process - in much the same way as the white and yellow bands delineating freeway lanes help to keep traffic orderly without being necessary for traffic.



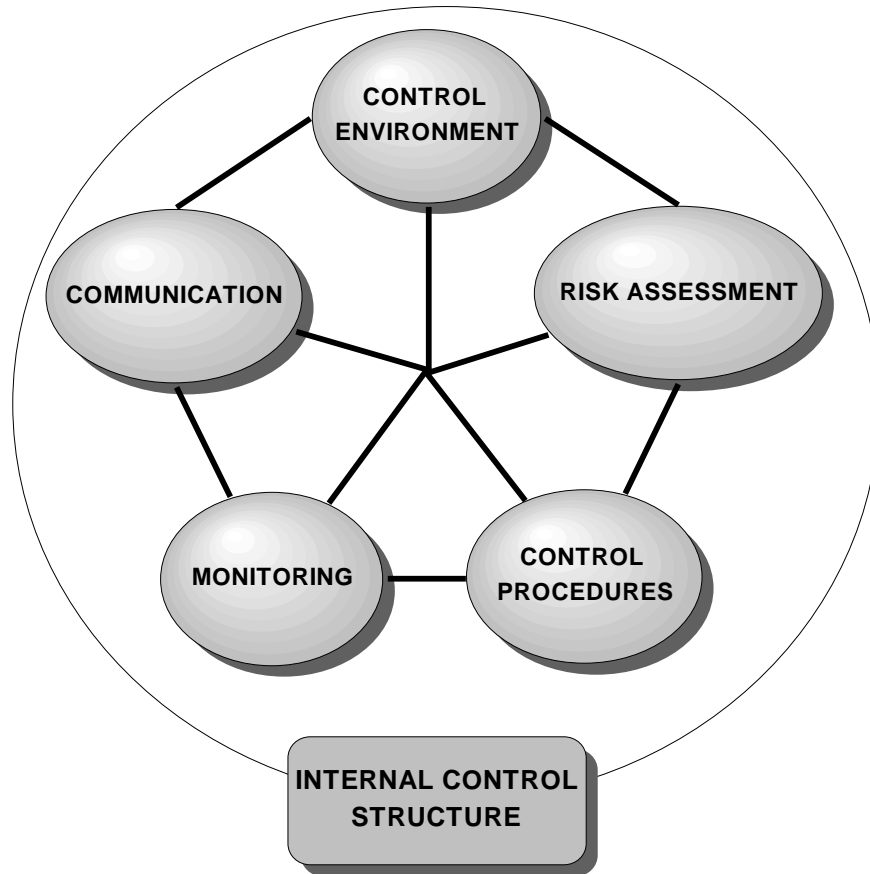
A control is labeled internal control to signify that it is an internal mechanism of an entity, as different from one that is imposed by another entity or external element. As a general rule, when “internal” control is adequate, external regulatory forces are less likely to impose “external” controls.

In the context of the County government, internal control is any activity undertaken by County personnel that increases the degree of public accountability. In other words, it is any activity that increases assurance that:

- Operations are effective and efficient.
- Applicable laws and regulations are complied with.
- Financial reports are reliable.

Internal control can be viewed by a County department head as insurance against the effect of adverse operating conditions.

In a department, an adequate internal control structure must contain the following five interrelated elements:



1. Control environment: This refers to the general environment in which employees carry out their responsibilities. It includes the ethical values set by management, management operating philosophy and style, the organizational culture and structure. The tone set at the top pervades all other activities in the department.

Standard: Management should support and promote a control environment that is conducive to public accountability.

2. Risk assessment: This is the identification and analysis of all possible risks relevant to the achievement of management objectives: given management objectives, the effect of "what can go wrong" scenarios is evaluated.

Standard: Management should periodically assess the risk exposures that threaten public accountability.

3. Control procedures: These are the policies and procedures that are established by management to mitigate the effect of the risks identified. These procedures include performance measurements, benchmarks, authorizations, approvals, reviews, reconciliations, verifications, restricted access and segregation of duties.

Standard: Management should establish the control procedures that reduce the risk exposures to a level that is reasonable to a prudent and informed manager in public service.

At a minimum, the control procedures described in the Internal Control Questionnaire issued by the Auditor-Controller (Appendix B) should be considered.

4. Communication: Relevant information about the organization and its operation should be identified, captured and communicated to appropriate personnel to ensure that they carry out their responsibilities effectively. This is done through meetings, memoranda, policies and procedures manuals and management reports.

Standard: Management should establish adequate information systems and communicate relevant information to the appropriate personnel.

5. Monitoring: The functioning of internal control should be monitored to ensure its effectiveness over time. This is accomplished through: (1) on-going monitoring activities such as regular review of performance results or continual quality assurance programs, or (2) periodic evaluations such as control self-assessments, management audits and performance audits.

Standard: Management should regularly evaluate internal control and ensure its proper operation.

The next four sections recommend methods for applying these standards.

IV. ASSESSING RISK

In order to ensure that an adequate accountability system exists in the department, management should be aware of the risk factors that threaten accountability. Those risk factors are of three types:

- Factors that affect the effectiveness and efficiency of operations: poorly defined goals, procedures based on antiquated technology, inadequate staff training, etc.
- Factors that affect compliance with laws and regulations: lack of monitoring of new laws, lack of enforcement policy, etc.
- Factors that affect the reliability of financial reports: weak audit trail, lack of reconciliation procedure, lack of authorization procedure, etc.

The method to assess the potential effect of such risk factors involves five steps:

1. Identify the key operational processes.
2. Determine what can go wrong (risk exposures) at each step of the processes.
3. Estimate the likelihood of the threats materializing.
4. Estimate the potential effect of each threat.
5. Determine the materiality of the risk exposures based on their likelihood and potential effect.

A County department can perform risk assessment at three levels:

- General: Perform a quick assessment using generic tools to get a general feel for the risk exposures. The control questionnaire in Appendix B may be used for this purpose.
- Specific: Perform an in-depth assessment with help from County Internal Audit staff.
- Expert consulting: Engage an outside expert to perform a management audit or review on specific areas. County Audit staff can help the department to determine the specifications for such management audit or review.

In the Control Self-assessment Program, Auditor-Controller staff assess accountability risk annually for the entire County based on objective data, then request control self-assessments by high risk departments. The Control Assessment Work Program in Appendix A outlines such a process.

The next step after assessing risk is to design controls to mitigate it.

V. DESIGNING INTERNAL CONTROL

The purpose of an internal control is to reduce the risk exposures that threaten public accountability to a reasonable level.

There are four steps for designing an effective and efficient internal control:

1. Understand the risk to be mitigated: this is accomplished through a risk assessment as described in Section IV.
2. Identify the activity (i.e., the control) which would reduce the risk to an acceptable level.
3. Estimate the cost of implementing and maintaining the control to ensure that it does not outweigh the expected benefit.
4. Establish that activity as an internal control.

Internal control design can be approached at two levels:

- General: The appropriate control procedures can be selected from a generic list such as the internal control questionnaire in Appendix B and modified as required.
- Specific: Control procedures are custom-designed to address the specific risks identified in the risk assessment. Appendix C describes such a method.

VI. IMPLEMENTING INTERNAL CONTROL

Once an internal control has been designed it should be implemented through two mechanisms:

1. Communication: The control should be documented and communicated to all employees and managers concerned. Typically, a high level manager informs employees of the new control through memorandum and the control is incorporated into a policy and procedure manual.

Any information related to the operation of the control (such as performance measures, results of audits, etc.) and any subsequent modification to the control should be similarly communicated to staff.

Internal control fails most often when the proper information is not communicated to the appropriate personnel.

2. Monitoring: Internal control deteriorates over time if not properly maintained. Therefore, management should periodically check the functioning of internal control through various mechanisms such as:
 - Continual monitoring through a quality assurance unit.
 - Periodic "check-up" of the internal control structure through a self-assessment process facilitated by County Internal Audit staff.
 - Focused reviews of specific operational areas through management audit or performance audit.

The involvement of top level management in internal control matters is crucial to the effectiveness of the internal control. Management involvement sets the tone at the top and determines whether the control environment is conducive to the effective functioning of the internal control.

VII. EVALUATING INTERNAL CONTROL

The best time to evaluate internal control is when everything seems to run smoothly. The worst time is during or after a crisis. A crisis tends to distort normal perspective and the ensuing reaction will normally result in the installation of inefficient controls.

Four aspects of internal control should be evaluated:

1. Is it valid, that is, would it reduce the risk identified?
2. Is it established, that is, is it established as a formal activity by management?
3. Is it effective, that is, has it been operating as intended?
4. Is it efficient, that is, does the risk reduction provided by the control justify the cost of maintaining the control?

The answers to these questions should be based on:

- Examination of current and past records.
- Observation of activities.
- Interviews with knowledgeable and reliable personnel.

A negative answer does not always mean that the control activity fails or should be modified; there may be other compensating factors that work to shore up the apparently deficient control.

The evaluation can be done for each specific control according to the Control Evaluation Method outlined in Appendix A. The evaluation can also be done expeditiously through the use of generic questionnaires such as Appendix B.

VIII. IMPROVING INTERNAL CONTROL

The next step after evaluating internal control is to find ways to improve it. Control activities are often interrelated and the combined effect of a group of control activities may be greater than the sum of the effects. Because of this synergy, optimum improvement often requires considering groups of controls rather than single control activities.

Therefore, the best way to improve internal control after an evaluation is to develop a plan for improvement that packages the new controls into coherent groups of activities.

COUNTY OF ALAMEDA
CONTROL ASSESSMENT WORK PROGRAM

PURPOSE

This work program is a list of suggested procedures for a County department to follow when assessing internal controls in the department. "Department" as used here also means "agency".

The purpose of this project is to determine whether the department has internal control in place to achieve adequate public accountability in accordance with Board of Supervisors' policy.

THE FOUR STEPS

A control self-assessment project normally consists of four steps:

- I. Determine scope of project.
- II. Evaluate controls.
- III. Develop improvement plan.
- IV. Report to Auditor-Controller.

This is the short version of a control self-assessment. A longer version with in-depth risk analysis can also be conducted with assistance from County Internal Audit staff.

PROCEDURES

- I. STEP 1: DETERMINE SCOPE OF PROJECT
 - A. Meet with County Internal Audit staff to discuss purpose and approach for the project.
 - B. Review the operational processes of the department and identify the general risk areas.
 - C. Decide on the focus of the project.
 1. Consider available resources and decide which operational processes or work units to include in the project.
 2. Designate project coordinator to take overall responsibility for the project.
 3. Determine the level of personnel to be involved.
- II. STEP 2: EVALUATE CONTROLS
 - A. Meet with appropriate personnel in the department to initiate the review. Request Internal Audit staff to participate in kick-off meeting as necessary.

- B. Assign personnel to use the internal control questionnaire to survey operations:
 - Interview knowledgeable and reliable personnel
 - Observe and note activities
 - Examine records
- C. Review all answers for validity and congruency. Get help from Internal Audit staff as necessary.
- D. Meet with other managers to discuss their staff's suggestions for improvement contained in the answers.

III. STEP 3: DEVELOP IMPROVEMENT PLAN

- A. Develop an improvement plan based on staff's suggestions. Include:
 - Specific actions to be taken
 - Expected completion dates
 - Personnel responsible for taking actions
- B. Submit the plan to the department head for approval.
- C. Implement the plan upon approval of department head.

IV. STEP 4: REPORT TO AUDITOR-CONTROLLER

- A. Summarize the results of the control assessment project in a report to the Auditor-Controller. Include:
 - Scope and approach of the project
 - Summary of findings and a copy of the completed internal control questionnaire
 - Improvement plan
- B. Prepare to show Internal Audit staff documentation supporting the report.

APPENDIX B - INTERNAL CONTROL QUESTIONNAIRE

- **MODULE 1 - ADMINISTRATION**
- **MODULE 2 - FINANCE**
- **MODULE 3 - SPECIALIZED AREAS**

ALAMEDA COUNTY

INTERNAL CONTROL QUESTIONNAIRE

MODULE 1 - ADMINISTRATION

This is an electronic questionnaire intended for use with MS-WORD.

Questions in this Module are best answered by an executive manager who has overall administrative responsibilities for the organization.

In each section, answer the questions in black first, then those in blue (italics) and finally those in red (bold). Type answers in the shaded space provided.

Answers must be based on observed facts, analyses or statements made by knowledgeable and reliable persons.

CONTENTS OF THIS MODULE

1 Mission

1.1 Goals

1.2 Planning

1.3 Monitoring

2 Processes

2.1 Effectiveness

2.2 Efficiency

3 Resources

3.1 Allocation of Resources

3.2 Effective Use of Resources

4 Operating Environment

4.1 Compliance

4.2 Compatibility

1 Mission

1.1 Goals

- a) Has the organization adopted a mission statement?
- b) Is the mission stated clearly, concisely and in easily understood terms?
- c) Is the mission compatible with the mission of the parent organization (Department, Agency or County)?
- d) Is the mission consistent with laws, regulations, the County Charter and the County Administrative Code?
- e) Is the mission statement divulged and displayed conspicuously throughout the organization?
- f) Has management set operational goals for the organization?
- g) Are these operational goals congruent with each other?
- h) Do these operational goals directly support the mission?
- i) Are these operational goals stated in measurable terms?
- j) Are the goals further divided into sub-goals for operating units?
- k) Is a method used to help employees understand how their daily work contributes to the goals of their units and to the mission of the organization?

1.1. Conclusion on goals:

Based on the above answers, are controls adequate to ensure that the mission and goals are understood and supported by all employees?

How can controls be improved?

1.2 *Planning*

- a) Has management developed plans to achieve stated goals?
- b) Do these plans have clearly stated objectives, methods to be used, organization of resources and time schedule?
- c) Do these plans include financial budgets?
- d) Does the planning process include input from operating personnel?
- e) Are these plans communicated to personnel responsible for implementing them?
- f) Are the plans converted into tasks assigned to specific employees?

1.2. *Conclusion on planning:*

Based on the above answers, are controls adequate to ensure that there are effective plans to accomplish the stated goals?

How can controls be improved?

1.3 *Monitoring*

- a) Is progress toward goal achievement periodically assessed?
- b) Does this periodic assessment include comparison of actual financial data to budgets and explanation of variances?
- c) Is this assessment based on reliable and objective measurements?
- d) Is this assessment done timely and at a frequency that allows timely adjustments?
- e) Are the results of the progress assessment shared with personnel responsible for action?
- f) Are the responsible personnel requested to take action to modify the goals or adjust the plan and processes?
- g) Does management follow up to ensure that the appropriate action was taken?

- h) Has the organization undergone an independent review or audit in the past five years?

1.3. Conclusion on monitoring:

Based on the above answers, are there adequate controls to help assess progress toward goal achievement?

How can controls be improved?

Conclusion on mission:

Based on the above conclusions in 1.1, 1.2 and 1.3, are controls adequate to ensure that the organization is carrying out a clear mission?

2 Processes

2.1 Effectiveness

- a) Are the core processes that are used to carry out the mission of the organization identified by management?
- b) Is the effectiveness of these processes defined and monitored by management?
- c) In the most recent complete fiscal period, did the output or outcome of the processes represent achievement of the stated goals?
- d) Are performance measures for each process obtained timely and at a frequency that permits timely adjustments?
- e) Is appropriate action taken as a result of the measurements to improve effectiveness?
- f) Are core processes documented in a manner that facilitates changes?
- g) Is the documentation kept up-to-date?

2.1. Conclusion on effectiveness:

Based on the above answers, are controls adequate to ensure that the processes used are effective?

How can controls be improved?

2.2 Efficiency

- a) Is efficiency defined and monitored by management?
- b) In the most recent fiscal period was the cost of operating each core process computed?
- c) Was this cost compared with output or outcome to assess efficiency?
- d) Is this efficiency compared with industry standards or other benchmarks?
- e) Are efficiency measurements obtained timely and at a frequency that permits timely adjustments?
- f) Is appropriate action taken as a result of the measurements to increase efficiency?

2.2. Conclusion on efficiency:

Based on the above answers, are controls adequate to ensure that the processes used are relatively efficient?

How can controls be improved?

Conclusion on processes:

Based on the above conclusions for 2.1 and 2.2, are controls adequate to ensure that operating processes are effective and relatively efficient?

3 Resources

Resources include all items that can readily be used in a process to produce desired results, such as skills and abilities of personnel, equipment, information systems and available funds.

3.1 Allocation of Resources

- a) Are total available resources identified and assigned to processes?
- b) Are under-utilized resources identified for re-deployment?
- c) Are goals prioritized?
- d) Is a consistent method used to allocate resources to achieve an optimum balance between effectiveness and efficiency? (To maximize effectiveness as many resources as possible should be allocated to a goal; to maximize efficiency as few resources as possible should be used).

3.1. Conclusion on allocation of resources:

Based on the above answers, are controls adequate to ensure optimal allocation of resources?

How can controls be improved?

3.2 Effective Use of Resources

- a) Are there current job descriptions for key personnel which state clearly the expected contribution to the organizational goals?
- b) Are instructions available on how to use the non-personnel resources such as equipment, information systems and available funds?
- c) Is a method used to determine the contribution of each resource to organizational goals?
- d) Is appropriate action taken to improve performance which fall below expected levels?
- e) Is there appropriate recognition to reinforce contributions at or above expected levels?

- f) Is there an adequate training program for personnel to maintain essential skills and abilities?
- g) Is there an incentive program for personnel to develop other job-related skills and abilities?
- h) Are major equipment items subjected to a regular maintenance / test schedule to ensure acceptable output level?
- i) Are major information systems evaluated periodically for continued usefulness?

3.2. *Conclusion on effective use of resources:*

Based on the above answers, are controls adequate to ensure that resources are contributing to organizational goals at the expected level?

How can controls be improved?

Conclusion on resources:

Based on the above conclusions in 3.1 and 3.2, are controls adequate to ensure that resources are organized and allocated to achieve optimum effectiveness and efficiency?

4 Operating Environment

4.1 Compliance

- a) Are current laws, regulations and standards that significantly affect operations identified?
- b) Is a method used to identify all laws, regulations and standards affecting the organization?
- c) Is a mechanism used to monitor compliance with these laws, regulations and standards?

4.1. Conclusion on compliance:

Based on the above answers, are there adequate controls to ensure that pertinent laws, regulations and standards are complied with?

How can controls be improved?

4.2 Compatibility

- a) Are all external factors that can have a material effect on operations in the future identified (Trends in industry, economy, technology, demography, regulations)?
- b) Are the future effects of these external factors monitored and planned for?

4.2. Conclusion on compatibility:

Based on the above answers, are there adequate controls to ensure that the effects of significant external influences are recognized and planned for?

How can controls be improved?

Conclusion on operating environment:

Based on the above conclusions in 4.1 and 4.2, are controls adequate to ensure that the organization is compatible with its operating environment in the long run?

ALAMEDA COUNTY

INTERNAL CONTROL QUESTIONNAIRE

MODULE 2 - FINANCE

This is an electronic questionnaire intended for use with MS-WORD.

The questions in this Module are best answered by a manager or group of managers who are familiar with all aspects of financial operations in the organization.

In each section, answer the questions in black first, then those in blue (italics) and finally those in red (bold). Type answers in the shaded space provided.

Answers must be based on observed facts, analyses or statements made by knowledgeable and reliable persons.

CONTENTS OF THIS MODULE:

1 Cash

- 1.1 Collections*
- 1.2 Disbursements*
- 1.3 Cash on hand*
- 1.4 Transmittal to County Treasury*
- 1.5 Accounting for Cash Transactions*
- 1.6 Cash Funds and Trust Funds*
- 1.7 Investments*

2 Revenue and Receivables

- 2.1 Recognition*
- 2.2 Cost Recovery*
- 2.3 Collection of Receivables*

3 County Properties

- 3.1 Proper Use*
- 3.2 Protection of Property*
- 3.3 Accounting for Property*

4 Purchasing and Payables

- 4.1 Need Assessment*
- 4.2 County Guidelines*
- 4.3 Receiving*
- 4.4 Payables*

5 Financial Reporting

- 5.1 Financial Data*
- 5.2 Financial Reports*

1 Cash

Cash includes currencies (coins, Treasury notes, banknotes), checks, money orders and other legal tender of the United States.

1.1 Collections

- a) Are the following duties segregated among at least two individuals?
 - Authorize cash receipts
 - Record cash receipts
 - Deposit cash receipts
 - Reconcile cash receipts
- b) Are there guidelines for accepting remittances that do not agree to amounts owed to the County?
- c) Are unidentified cash remittances immediately returned to the payers or deposited into a suspense account for further research?
- d) Is supporting documentation required to indicate the purpose of the remittance to the County?
- e) Are electronically transmitted remittances confirmed in writing with identification of payer, amount and purpose?
- f) Is cashing of personal checks against collections prohibited?
- g) Are currency and checks accounted for separately?
- h) Are checks restrictively endorsed immediately upon receipt?
- i) Are checks reviewed for accuracy and authenticity before acceptance?
- j) Are checks showing suspicious alterations immediately returned to payers?
- k) Are cash collections recorded immediately upon receipt by means of cash registers or similar devices?
- l) Does the information recorded include: date, payer, amount, method of payment, purpose of payment, cashier's name?

- m) Is a receipt issued for every remittance in currency?
- n) Are receipt forms pre-numbered and periodically accounted for?
- o) Are cash collections balanced to receipts daily?
- p) Is cash shortage for each cashier documented?
- q) Are cash shortages made up from a cash difference fund rather than being offset against overages?
- r) Is a Board-approved fee levied for all returned checks?

1.1. Conclusion on collections:

Based on the above answers, are controls adequate to ensure that cash collections are properly authorized, supported and accounted for?

How can controls be improved?

1.2 Disbursements

- a) Are the following duties segregated among at least two individuals:
 - Authorize disbursements
 - Have custody of cash
 - Record disbursements
 - Reconcile cash disbursements
- b) Is there a policy which clearly defines authorized disbursements?
- c) Are disbursements supported by properly approved claims or vouchers?
- d) Are cash advances prohibited unless specifically authorized by the Auditor-Controller?
- e) Are disbursements made only from authorized cash funds, bank accounts or through warrant requests?

- f) Are disbursements by warrants specifically authorized by the Auditor-Controller?
- g) Are blank checks, warrants and signature plates safeguarded in physically secure areas?
- h) Do only authorized personnel sign checks and warrant requests?
- i) Do check and warrant request signers review supporting documentation before signing?
- j) Are signed warrants and checks immediately mailed out by someone who did not prepare them?
- k) Are disbursements by means of electronic transmission specifically authorized by the Auditor-Controller?
- l) Is each electronic disbursement confirmed in writing with the intended recipient?
- m) Are disbursements immediately recorded with all relevant detail? (date, payee, amount, purpose)
- n) Are claims and invoices immediately canceled when paid?

1.2. Conclusion on disbursements:

Based on the above answers, are controls adequate to ensure that cash disbursements are properly authorized, supported and accounted for?

How can controls be improved?

1.3 Cash on hand

- a) Is cash on hand safeguarded in a physically secure area?
- b) Are cash collections deposited promptly into bank accounts if appropriate?
- c) Are bank accounts authorized by laws, the Board of Supervisors, the Auditor-Controller or the Treasurer?

- d) Are bank accounts established in the names of authorized County officials?
- e) Is cash in bank within the protection range of FDIC insurance, i.e. does not exceed \$100,000 per account?
- f) Are cash losses promptly identified and reported to the proper authorities according to Countywide guidelines?

1.3. Conclusion on cash on hand:

Based on the above answers, are controls adequate to ensure that cash on hand is safeguarded?

How can controls be improved?

1.4 Transmittal to County Treasury

- a) Are collections transmitted from branch offices to home office through secure means within a reasonable time?
- b) Is the money transmitted verified at both ends of transmission?
- c) Is the money collected deposited intact and promptly (at least weekly) into County Treasury?

1.4. Conclusion on transmittal to County treasury:

Based on the above answers, are controls adequate to ensure that cash collected at County offices is promptly placed in the custody of the Treasurer?

How can controls be improved?

1.5 Accounting for Cash Transactions

- a) Are daily collections promptly summarized and recorded in a cash receipt journal?
- b) Are deposits promptly recorded?
- c) Are deposits reconciled to collections?

- d) Are disbursements promptly summarized and recorded in a cash disbursement journal?
- e) Is an authorized chart of accounts used to apply cash collections and disbursements?
- f) Are collections reported to the Auditor's Office on monthly Collection Reports?
- g) Are deposit records reconciled to BACIS ledger?

1.5. Conclusion on accounting for cash transactions:

Based on the above answers, are controls adequate to ensure that cash transactions are accurately recorded and reported to the Auditor-Controller?

How can controls be improved?

1.6 Cash Funds and Trust Funds

- a) Are cash funds and trust funds established only pursuant to Code, Board resolution or Auditor's Letter-Order?
- b) Is an inventory of all cash funds maintained, showing location, amount and custodian?
- c) Are procedures for use of cash funds clearly established and do they include:
 - Clear definition of authorized uses
 - Prior approval of expenditures
 - Restriction on amount and type of purchase
 - Reimbursement only upon submission of receipt
 - Cancellation of receipt upon reimbursements
- d) Are trust funds used only to hold assets temporarily for a third party or to discharge a fiduciary obligation?
- e) Is an authorized chart of accounts used to charge disbursements?
- f) Are replenishment requests based on actual expenditures?

- g) Are book balances reconciled monthly to bank statements?
- h) Are trust fund balances reconciled monthly to subsidiary ledger balances?
- i) Are cash funds periodically counted and verified by supervisors?
- j) Is the level of usage monitored to detect and close inactive funds?

1.6. Conclusion on cash funds and trust funds:

Based on the above answers, are controls adequate to ensure that all cash funds and trust funds are properly maintained?

How can controls be improved?

1.7 Investments

- a) Is cash in excess of operating needs invested in accordance with laws and regulations?
- b) For invested funds, is an approved investment policy followed to ensure a prudent and average return on capital?
- c) Are investment results monitored for compliance with laws and policies?

1.7. Conclusion on investments:

Based on the above answers, are controls adequate to ensure that excess cash is prudently invested?

How can controls be improved?

Conclusion on cash:

Based on the conclusions for 1.1, 1.2, 1.3, 1.4, 1.5, 1.6 and 1.7, are controls adequate to ensure proper accountability for cash and cash transactions?

2 Revenue and Receivables

2.1 Recognition

- a) Is there a procedure to identify new or changes in revenue sources arising from new laws and regulations?
- b) If revenue is in the form of tax or license, is there a method to identify all assessable activities or properties?
- c) Is the maximum amount of revenue recognized to the extent allowed by laws and accounting standards?
- d) Is the cumulative revenue compared to prior years to detect any unusual changes?
- e) Are the following duties segregated among at least two people?
 - Approve billings
 - Prepare billings
 - Posting revenue & receivable records
 - Accepting payments
 - Reconciling billings & receivable records
- f) Are billings and accounts receivable reported on monthly Collection Reports to the Auditor's Office?

2.1. Conclusion on recognition of revenue:

Based on the above answers, are there adequate controls to ensure that all revenues that properly accrue to the County are recognized and recorded?

How can controls be improved?

2.2 Cost Recovery

- a) Are the costs of services or goods sold computed?
- b) Are all allowable costs including indirect costs included in the computation?
- c) Are billing rates and service fees reviewed periodically to ensure that costs are recovered to the fullest extent allowable?

- d) Are billings checked for accuracy before mailing?

2.2. Conclusion on cost recovery:

Based on the above answers, are controls adequate to ensure that costs are computed and recovered from external parties to the fullest extent?

How can controls be improved?

2.3 Collection of Receivables

- a) Is there a procedure to ensure timely generation of billing invoices?
- b) Are detailed receivable ledgers reconciled periodically to the control ledger?
- c) Are aged receivable listings prepared periodically to identify old unpaid accounts?
- d) Is there a procedure to follow up on overdue accounts and refer them to Central Collections or other collection agency as appropriate?
- e) Are uncollectible accounts identified and submitted to the Board of Supervisors annually for discharge of accountability?

2.3. Conclusion on collection of receivables:

Based on the above answers, are controls adequate to ensure that all amounts due the County are promptly collected?

How can controls be improved?

Conclusion on revenue and receivables:

Based on the conclusions for 2.1, 2.2 and 2.3, are controls adequate to ensure proper accountability for County revenues and receivables?

3 County Properties

County properties include such non-monetary and non-digital assets as land, buildings & fixtures, furniture and equipment that are owned or leased by the County. For practical purposes only items with estimated value at \$5,000 or above are considered. Computers are dealt with in Module 3 - Information Systems.

3.1 *Proper Use*

- a) Are the following duties segregated among at least two individuals?
 - Authorizing purchase, transfer or disposal of properties
 - Using the properties
 - Posting property records
 - Adjusting and reconciling records to physical inventory
- b) Are property purchases and leases made in conformance to County Purchasing Department guidelines and applicable laws and regulations?
- c) Are the purposes of significant property items made clear to employees and users?
- d) Is access to valuable or sensitive property items restricted to authorized users only?
- e) Are authorized users provided with proper training on the correct use of the property?

3.1. *Conclusion on proper use:*

Based on the above answers, are controls adequate to ensure that County properties are used properly for the purpose intended?

How can controls be improved?

3.2 *Protection of Property*

- a) Are procedures in place to safeguard valuable and sensitive property items against theft or damage?
- b) Are items owned by the County specifically identifiable?
- c) Is responsibility for the safe custody and maintenance of properties assigned to specific individuals?

- d) Is a regular maintenance schedule followed to maintain the functionality and value of properties?
- e) Is warranty information properly kept for new property items?

3.2. Conclusion on protection of property:

Based on the above answers, are controls adequate to ensure that the value of County properties is protected?

How can controls be improved?

3.3 Accounting for Property

- a) Are detailed records of properties maintained showing identification number, description, location and original cost?
- b) Is the physical existence of the properties annually verified and reconciled to property records?
- c) Are new property items promptly reported to GSA and the Auditors' Office?
- d) Are procedures in place to document loss, transfer and retirement of properties?

3.3. Conclusion for accounting for property:

Based on the above answers, are controls adequate to ensure that County properties are accounted for?

How can controls be improved?

Conclusion on County properties:

Based on the conclusions for 3.1, 3.2 and 3.3, are controls adequate to ensure proper accountability for County properties?

4 Purchasing and Payables

4.1 Need Assessment

- a) Are needs evaluated and verified prior to making a purchase decision?
- b) Is there a procedure to check all options to satisfy the needs before a purchase decision is made?
- c) Are items to be purchased specified in sufficient detail in the requisition to minimize risk of erroneous purchases?
- d) Are the detailed specifications verified by the requestor?

4.1. Conclusion on need assessment:

Based on the above answers, are controls adequate to ensure that all and only necessary items are purchased?

How can controls be improved?

4.2 County Guidelines

- a) Are purchasing guidelines in the GSA Manual followed?
- b) Is availability of funds verified prior to incurring the expenditures?
- c) Is the use of confirming requisitions limited to emergency situations?
- d) Is competitive bidding used to the extent possible?
- e) Is there a procedure to ensure that all relevant Board policies on contract awards are complied with?

4.2. Conclusion on County guidelines:

Based on the above answers, are controls adequate to ensure that County guidelines and Board policies are followed?

How can controls be improved?

4.3 *Receiving*

- a) Are unfilled orders promptly followed up?
- b) Are goods and services delivered inspected for conformance with purchase order?
- c) Are non-conforming goods promptly returned to vendors?
- d) Are vendors promptly notified in writing of non-conforming services?
- e) Are goods and services received documented in writing?

4.3. *Conclusion on receiving:*

Based on the above answers, are controls adequate to ensure that goods and services are received as ordered?

How can controls be improved?

4.4 *Payables*

- a) Are all authorizations to pay based on receiving documents?
- b) Is an invoice requested and received timely for every credit purchase?
- c) Are vendor invoices processed promptly?
- d) Are invoices checked for accuracy?
- e) Are approvals for payment made on original invoices only?
- f) Are paid invoices immediately canceled?

4.4. *Conclusion on payables:*

Based on the above answers, are controls adequate to ensure that liabilities resulting from purchases are promptly and accurately recognized and paid?

How can controls be improved?

Conclusion on purchasing and payables:

Based on the conclusions for 4.1, 4.2, 4.3 and 4.4, are controls adequate to ensure proper accountability for County purchases and payables?

5 Financial Reporting

5.1 Financial Data

- a) Are ledgers maintained to record all financial transactions?
- b) Is there an audit trail from the source documents to the ledgers?
- c) Are the ledgers periodically reconciled to County ledgers?
- d) Is there a record retention policy that satisfies statutory and audit requirements?
- e) Are the accounting records subjected to periodic reviews or audits?
- f) Are accounting and finance staffs receiving adequate training?

5.1. Conclusion on financial data:

Based on the above answers, are controls adequate to ensure that financial data are reasonably accurate?

How can controls be improved?

5.2 Financial Reports

- a) Are financial reports prepared based on the accounting ledgers?
- b) Are financial reports reviewed and approved by the appropriate finance manager?
- c) Is a schedule followed to ensure timely preparation and filing of statutory reports?

d) Is the usefulness of internal financial reports periodically evaluated?

5.2. Conclusion on financial reports:

Based on the above answers, are controls adequate to ensure that financial reports are reliable and useful?

How can controls be improved?

Conclusion on financial reporting:

Based on the conclusions for 5.1 and 5.2, are controls adequate to ensure that the accounting system produces reliable and useful financial reports?

ALAMEDA COUNTY

INTERNAL CONTROL QUESTIONNAIRE

MODULE 3 - SPECIALIZED AREAS

This is an electronic questionnaire intended for use with MS-WORD.

The questions in this Module are best answered by a manager or group of managers who are familiar with all aspects of personnel management, contracting and information systems in the organization.

In each section, answer the questions in black first, then those in blue (italics) and finally those in red (bold). Type answers in the shaded space provided.

Answers must be based on observed facts, analyses or statements made by knowledgeable and reliable persons.

CONTENTS OF THIS MODULE

1 Human Resources

- 1.1 Recruiting*
- 1.2 Compensation*
- 1.3 Job Responsibilities*
- 1.4 Training*
- 1.5 Employee Performance*
- 1.6 Communication*

2 Contracted Services

- 2.1 Need Assessment*
- 2.2 Ability Assessment*
- 2.3 Compliance*
- 2.4 Contract Execution*

3 Information Systems

- 3.1 Computer Equipment*
- 3.2 Protection of Information*
- 3.3 Usefulness of Information*

1 Human Resources

1.1 Recruiting

- a) Are skills and abilities required for key positions clearly defined by the managers responsible for those positions?
- b) Are the civil service examinations or similar tests based on actual skills and abilities required for the job?
- c) Is the compensation package designed to attract and retain qualified candidates?
- d) Are openings advertised widely to attract qualified applicants?
- e) Is the selection process designed to hire the best candidates for the positions?

1.1. Conclusion on recruiting:

Based on the above answers, are controls adequate to ensure that the best applicants who possess the skills and abilities required for the positions are hired?

How can controls be improved?

1.2 Compensation

- a) Are compensation guidelines issued by the Human Resources Department adhered to?
- b) Are payroll clerks properly trained in payroll procedures?
- c) Are employees' time recorded and approved by supervisors?
- d) Are changes in employee payroll status properly authorized and documented?

1.2. Conclusion on compensation:

Based on the above answers, are controls adequate to ensure that employees are compensated fairly according to County policies and union agreements?

How can controls be improved?

1.3 Job Responsibilities

- a) Is each employee assigned specific job responsibilities in writing?
- b) Are significant changes in assignment documented in writing?
- c) Are key job responsibilities approved by the department head?
- d) Do statements of job responsibilities indicate clearly how the employees contribute to the department goals?

1.3. Conclusion on job responsibilities:

Based on the above answers, are controls adequate to ensure that employee responsibilities are consistent with department goals?

How can controls be improved?

1.4 Training

- a) Are resources and tools required by employees to carry out their responsibilities determined?
- b) Is the training required by employees to maintain their skills determined?
- c) Are funds budgeted to acquire the required resources, tools and training?

1.4. Conclusion on training:

Based on the above answers, are controls adequate to ensure that employees are given the necessary resources and training to carry out their responsibilities?

How can controls be improved?

1.5 Employee Performance

- a) Are performance standards or expectations established?
- b) Is performance assessed periodically against the standards and documented?
- c) Are positive results reinforced through recognition or award?
- d) Is action taken to improve performance that is below standard?

1.5. Conclusion on employee performance:

Based on the above answers, are controls adequate to ensure that employees' performance meet expectations?

How can controls be improved?

1.6 Communication

- a) Is a reliable mode of communication consistently used to communicate instructions to operating personnel?
- b) Is there a mode of communication through which employees can freely express their concerns and suggestions to their managers?
- c) Are managers required to follow up and respond to their employees' concerns and suggestions?

1.6. Conclusion on communication:

Based on the above answers, are controls adequate to ensure that there is effective communication among all levels of personnel?

How can controls be improved?

Conclusion on human resources:

Based on the conclusions for 1.1, 1.2, 1.3, 1.4, 1.5 and 1.6, are controls adequate to ensure that human resources are making optimal contribution to the goals of the organization?

2 Contracted Services

Contracted services refer to both services rendered to the County and by the County.

2.1 Need Assessment

- a) Are the needs clearly defined prior to the contracting decision?
- b) Are all reasonable options explored before the contracting decision?
- c) Are contract drafts reviewed by the contract administrators or users before final approval?
- d) Are on-going contracts periodically reviewed and modified to reflect changes in needs?

2.1. Conclusion on need assessment:

Based on the above answers, are controls adequate to ensure that the need for the contracted services is valid and is properly reflected in the contract?

How can controls be improved?

2.2 Ability Assessment

- a) Is the ability to provide the services contracted determined prior to the decision to contract?
- b) Is the net benefit to the County determined prior to entering into the contract?
- c) Is the ability to provide the services reviewed periodically prior to renewing the contract?

2.2. *Conclusion on ability assessment:*

Based on the above answers, are controls adequate to ensure that the provision of services results in continuing benefit to the County?

How can controls be improved?

2.3 *Compliance*

- a) Are contract drafts reviewed for compliance with statutes, regulations and Board policies?
- b) Are terms of contracts reviewed annually for modifications necessitated by changes in laws, regulations or Board policies?

2.3. *Conclusion on compliance:*

Based on the above answers, are controls adequate to ensure that contracts are in compliance with laws, regulations and Board policies?

How can controls be improved?

2.4 *Contract Execution*

- a) Are County responsibilities as stipulated in the contracts assigned to specific personnel?
- b) Are County responsibilities monitored by management?
- c) Are the counter-party' s responsibilities monitored by County personnel?
- d) Is the counter-party notified timely of non-compliance with contractual terms?
- e) Are instances of contract non-compliance followed up to ensure proper resolution?

2.4. *Conclusion on contract execution:*

Based on the above answers, are controls adequate to ensure that contractual terms are properly carried out by both parties?

How can controls be improved?

Conclusion on contracted services:

Based on the conclusions for 2.1, 2.2, 2.3 and 2.4, are controls adequate to ensure that contracted services result in optimal contribution to the goals of the organization?

3 Information Systems

Information systems refer to any group of computer equipment and files under the control of the organization which generate information used in the operation of the organization.

3.1 Computer Equipment

- a) Is the Countywide Computer Use Policy adopted and implemented?
- b) Are policies specific to work units developed to protect equipment?
- c) Is physical access to equipment limited to authorized personnel?
- d) Are instructions and training provided to new equipment users?
- e) Is equipment breakdown promptly reported and acted on?
- f) Is equipment subject to regular maintenance schedule?
- g) Are purchases of equipment coordinated and planned to ensure long-term compatibility?

3.1. *Conclusion on computer equipment:*

Based on the above answers, are controls adequate to ensure that computer equipment is properly protected?

How can controls be improved?

3.2 Protection of Information

- a) Is a person designated as security administrator to ensure the security of information?
- b) Is access to data and program files restricted to authorized personnel?
- c) Is access to information contained in LAN and mainframe systems controlled by password?
- d) Are procedures established for the retention and back up of critical computer files?
- e) Is there a policy to control the risks from Internet usage?

3.2. Conclusion on protection of information:

Based on the above answers, are controls adequate to ensure that information is properly protected?

How can controls be improved?

3.3 Usefulness of Information

- a) Is the usefulness of output from information systems periodically evaluated?
- b) Are users periodically surveyed as to the usefulness of the information that they receive?
- c) Are users kept informed of new capabilities of the system?

3.3. Conclusion on usefulness of information:

Based on the above answers, are controls adequate to ensure the continuing usefulness of information systems?

How can controls be improved?

Conclusion on information systems:

Based on the conclusions for 3.1, 3.2, and 3.3 are controls adequate to ensure that information systems are making optimal contribution to the goals of the organization?

ALAMEDA COUNTY
CONTROL EVALUATION METHOD

PROCESS	RISK	ASSESSMENT	CONTROL	EVALUATION	IMPROVEMENT
<p>Describe the goal and key steps of a process.</p>	<p>For each step list potential risk exposures which threaten accountability:</p> <ol style="list-style-type: none"> 1. Risk of step not being effective 2. Risk of step not being efficient 3. Risk of step not generating reliable financial data. 4. Risk of step not being in compliance with laws, regulations and policies. 	<p>Estimate the likelihood and potential effect of the exposures on the goal of the process.</p>	<p>Describe the existing activity that reduces the risk exposures to a reasonable level.</p>	<p>Evaluate each control:</p> <ol style="list-style-type: none"> 1. Is it valid: would it reduce the risk? 2. Is it established: is it a formal activity established by management? 3. Has it been effective: has it operated as intended? 4. Has it been efficient: does the decrease in risk outweigh the cost? 	<p>Consider possible ways of making the control valid, established, effective and more efficient.</p>

ALAMEDA COUNTY
CONTROL EVALUATION METHOD
 EXAMPLE

PROCESS: Distribute food to indigents	RISK EXPOSURES	RISK ASSESSMENT	CONTROL	CONTROL EVALUATION	IMPROVEMENT
<p><u>Step A:</u> Transport food from warehouse to distribution sites.</p> <p><u>Step B:</u> Distribute food to indigents.</p>	<p>Examples of exposures for <u>Step A:</u></p> <ol style="list-style-type: none"> 1. Effectiveness <ol style="list-style-type: none"> 1.1. Delivery vehicles may break down on the way. 2. Efficiency <ol style="list-style-type: none"> 2.1. Delivery does not follow the shortest itinerary. 3. Reliable financial data <ol style="list-style-type: none"> 3.1. Quantity of food transported is unknown. 4. Compliance <ol style="list-style-type: none"> 4.1. Food is transported in unsanitary conditions. 	<p>Likelihood and impact of each exposure:</p> <ol style="list-style-type: none"> 1. Likely since fleet is old; Impact is significant since food may not get to sites timely to feed hungry people. 2. Unlikely and insignificant since all drivers are local and distance to sites is within 3 miles. 3. Unlikely because site allocation is pre-determined; risk is significant since incorrect reporting may reduce food collection. 4. Likely since fleet is old; risk is significant since health inspectors may stop the distribution. 	<p>Existing controls to mitigate exposures:</p> <ol style="list-style-type: none"> 1. Monthly maintenance is performed on all vehicles. 2. Only experienced local drivers are hired. 3. Drivers witness loading of food and signs shipment bill that shows detailed quantities. 4. Sanitation checklist is checked for each vehicle at monthly maintenance. 	<p>Evaluation of <u>control #1:</u></p> <ol style="list-style-type: none"> a) Is it valid: would it reduce the risk? Yes. If vehicles are maintained regularly they will break down less often. b) Is it established: is it a formal activity established by management? Yes. Vehicle maintenance procedures are included in Manual. c) Has it been effective: has it operated as intended? No. Monthly scheduled often skipped due to unavailable mechanic. d) Has it been efficient: does the decrease in risk outweigh the cost? Yes. \$30,000 wages of one mechanic ensure that 200 tons of food are delivered to needy families each year. 	<p>How can <u>control #1</u> be improved?</p> <p>Consider hiring a part-time or on-call mechanic to serve as back up to the one regular mechanic.</p>