

ATTACHMENT D

Checklists for Internal Control

The checklists for internal control included in this Manual under Attachment D are provided as a suggested guide for recipient officials in assessing the adequacy of the organization's business management capabilities. The check lists are not all inclusive, but can serve as a resource for ongoing evaluation, as necessary. The types of problems continually cited in audit reports clearly indicate that greater attention must be given to the business management competence of recipient organizations. Proper internal control procedures will provide greater assurance that grant and subgrant awards will be adequately managed and should reduce the deficiencies found in audits of the organization.

1. Personnel Management

- Is an up-to-date organizational chart in use?
- Does the position classification system:
 - (1) differentiate between levels of responsibility and complexity of work?
 - (2) require position descriptions and job titles?
 - (3) identify position requirements?
 - (4) call for periodically reviewing and updating position descriptions?
 - (5) divide duties among employees responsible for the procurement, approval, verification (pre-audit) and disbursement functions of expenditure transactions?
- Does the recruitment and selection system:
 - (1) provide for the announcement of vacancies to staff as well as other known sources of manpower?
 - (2) establish controls to ensure consistency with the budget plan?
 - (3) enable a comparison of job candidates with the budget plan?
 - (4) establish procedures for applicant interviews, reference checks and final selection by an appropriate official?
 - (5) evaluate the effectiveness of compliance with Title VI of the Civil Rights Act of 1964, as amended?
- Is the compensation determination based on analysis of:
 - (1) job requirements?
 - (2) comparability with similar work in the local labor market?
 - (3) periodic review of pay scales?
 - (4) fringe benefits comparable to other similar organizations?
- Does the performance rating system:
 - (1) establish performance standards?
 - (2) require periodic rating?
 - (3) form the basis for consideration of future pay adjustments?
- Is the merit promotion plan based on increased responsibility and employee qualifications?

■ Does the staff utilization and career development program:

- (1) require analysis of manpower needs and staff use?
- (2) provide job training or retraining where applicable?
- (3) provide career counseling?
- (4) provide supervisory training?

■ Is there a clear, consistent written policy with respect to:

- (1) working hours?
- (2) work schedules?
- (3) overtime?
- (4) vacation schedules and other absences?
- (5) maintenance of attendance records for all employees, with proper supervisory controls?
- (6) travel (including transportation, subsistence and lodging)?
- (7) training?
- (8) outside employment?
- (9) permitted and prohibited political activity, if covered by the Hatch Act?

■ Does the personnel relations program include:

- (1) open channels of communication for distribution of information, expression of grievances, and the encouragement of ideas for organizational improvement?
- (2) written standards for employee conduct and conflict of interest?
- (3) a fair and equitable disciplinary system to handle conduct violations?
- (4) the provision of medical services to all employees, as appropriate?

- Does the file and records system include all official documents related to the employment of each staff member and other persons participating in grant supported activities?
(Such records should be maintained in an orderly and accessible file system which is capable of providing necessary information to supervisors, accountants, and auditors, as well as employees. Among the documents which would be included in these are actions related to hiring, dismissal, promotions, commendations and adverse actions.)

2. Payroll

- Is the payroll checked at regular intervals against the personnel records?
- Are clerical operations involved in the preparation of payroll checks double-checked before checks are distributed?
- Are the functions involved in the preparation of payroll distributed among a number of employees? Are the duties of those preparing payrolls rotated?
- Are the unclaimed paychecks properly controlled?
- If a separate payroll bank account is maintained, is it reconciled by an employee independent of all other payroll preparation functions?
- Does the procedure followed in reconciling the payroll bank account include the checking of names on payroll checks and of endorsements against payroll records?
- Are payroll checks distributed by someone other than persons who prepare payrolls, supervise employees, approve time reports, or sign paycheck?

- Is the bank instructed not to clear payroll checks over 30 days after date issued?
- Are occasional surprise distribution of paychecks made by an independent employee having no financial duties?
- Are payroll checks always prepared after receipt of approved time-and-attendance reports and based on those reports?
- Is the issuance of any payroll checks before approved time-and-attendance reports have been received expressly forbidden?
- Is each new employee personally interviewed by both the department in which s/he is to work and by persons independent of that department?
- Are controls over employee termination adequate to prevent the continuance of pay for an employee no longer working?
- Where over 50 employees are on the payroll, are other methods or precautions applied to preclude the possibility of fictitious or nonworking employees being added to the payroll?
- Is an adequate current record maintained of all personnel and pay rates?

3. Accounting

- Is the accounting routine set out in an accounting manual?
- For small recipients, is the financial system designed, at the minimum, so that no one person has access to all financial operations, procedures, and records?
- Are sources and application of Federal and non-Federal funds identified in the accounting system (§ 74.61 (b):
 - (1) authorizations?
 - (2) funds received (including program income)?
 - (3) reimbursements?
 - (4) obligations?
 - (5) unobligated balances?
 - (6) assets (including depreciation or use allowances)?
 - (7) if applicable, grant-related income?
- Does the accounting system accumulate and record the direct costs of each Federally-supported project for both Federal and non-Federal costs?
- Are individual cost elements in recipient's chart-of-accounts reconciled to the cost categories in the approved budget?
- Does the accounting system identify and segregate unallowable costs?
- Are accounting records supported by source documentation? (§ 74.61(g))
- Are separate program activities or program accounts documented in the accounting system?
- Are transactions recorded and posted in the accounting books and records as frequently as possible, but at least every thirty days?
- Is the accounting function completely separated from procurement (purchasing) and receiving?
- Are general journal entries approved by a responsible employee?

4. Budget

- Are there procedures to determine the allowability, allocability, and reasonableness of costs? Are the procedures verified and/or approved by a responsible official?
- If costs have been transferred within the approved budget since the last award, are the transfers supported by justification or documentation?
- Was prior approval obtained on costs requiring same?
- Were any obligations for the current budget period incurred prior to the effective date?
- Are budgeted costs compared with actual costs (for both Federal and non-Federal costs)?
- Is action taken when the comparisons disclose problems?
- Are budgetary controls in place to preclude incurring obligations in excess of total funds available for (1) grant and (2) object class category?

5. Cash Management

- Is there more than a three day lapse between the advance of grant funds and expenditures?
- Are separate or special purpose bank accounts controlled? (Special accounts may be used as needed but should be under same control as the regular accounts.)
- Are all cash receipts immediately recorded upon the books?
- Are cash receipt books properly controlled and safeguarded?
- Are validated duplicate deposit slips obtained for each deposit?
- For small recipients, are certain functions such as receipt of bank statements, preparation of bank reconciliations, etc., carried out by independent bookkeepers or others for internal control purposes?
- Are bank statements received directly, unopened by the person who prepares the bank reconciliation?
- Are bank statements reconciled at least monthly?
- Are paid checks examined for date, name, cancellation, and endorsements at the time the reconciliation is prepared?
- Do supporting data accompany checks when they are submitted for signature?
- Are supporting documents cancelled to prevent subsequent use?
- Are vouchers or supporting documents identified by grant number, date, and expense classification?
- Are invoices or vouchers approved in advance by responsible department heads?
- Is the sequence of check numbers accounted for when bank account is reconciled?
- Is the bank instructed not to pay checks over 30 days after date shown on check?
- Are voided checks properly mutilated and retained for subsequent examination?

- Are blank checks properly controlled?
- Is the practice of drawing checks payable to "cash", "petty cash", "bearer" etc. prohibited?
- Are authorized signatures limited to persons who have no access to accounting records or to petty cash?
- If a mechanical or facsimile signature is used for disbursements, is the signature plate, die, key, etc. under adequate control?
- Is the issuance of checks on only verbal authority prohibited?
- Is the signing of checks in advance prohibited?
- Are employees prohibited from having custody of any unrecorded cash or negotiable documents (other than their own personal money) while on the premises of the grantee?
- Is responsibility for any petty cash fund vested in only one person?
- Are signed vouchers obtained written in ink for all petty cash disbursements?
- Is the maximum amount of any individual disbursement limited to \$20.00 or to another reasonable amount?
- Are the amounts of petty cash funds limited so that reimbursement is required at relatively short intervals (not over 2 weeks)?
- Are petty cash vouchers cancelled or marked so as to preclude their reuse?
- Is petty cash kept locked at all times when not in use?
- Are employee loans prohibited?
- Are employee travel advances or other types of business advances accounted for promptly?

6. Procurement (Purchasing)

- Are the organization's purchasing practices and policies in writing in a purchasing manual?
- Is a separate purchasing department maintained?
- If not, is the responsibility for procurement assigned to one individual?
- Is the prenumbered sequence of used purchase orders accounted for?
- Does a copy of the receiving report go directly to the accounting office when goods are received?
- Are invoices checked in the accounting office against purchase orders and receiving reports?
- Is there definite evidence of responsibility for verifying invoices as to prices, extensions, additions, freight charges, discounts, etc.?
- Is account coding double-checked prior to disbursement?
- Are vouchers examined by a responsible individual to ascertain completeness of attachments and various required approvals?
- Are vendors' invoices delivered directly to the accounting office?

- Are purchases for employees expressly prohibited?
- Are purchase invoices routed through a voucher register and not directly through cash disbursements?
- If a voucher register is maintained, is it balanced monthly with the general ledger control account?
- Is a postage meter used for outgoing mail?
- Are controls established over use of any duplicating and photocopying equipment, and are quantities of material used or copies made accounted for?
- Are voided purchase orders mutilated and retained for future examination?
- Are purchase orders outstanding periodically reviewed and outstanding old orders accounted for?
- When competitive quotations are required in accordance with procurement policy, are they properly obtained?
- Are expenditure transaction files maintained in such a manner that documents supporting any transaction can be easily located?
- Is a master list maintained of all persons authorized to sign or approve purchase requisitions, purchase orders, receiving reports, invoices (approval for payment, time-and-attendance records, etc.), and are signature samples available for comparison?
- Are goods and services received prior to payment?
- Are small and/or minority businesses used as sources of supplies and services?
- Have sole source procurements been approved by the granting office?
- Have price or cost analyses been performed on all procurements?
- Has a lease vs. purchase analysis been made before procuring equipment?
- Prior to the purchase of equipment with grant funds, does an authorized grantee official certify that no similar equipment is on hand?
- Are the required conditions or provisions contained in contracts awarded by the organization?

7. Property Management

- Are the organization's property policies in writing in a property Manual?
- Are the proper classifications made between equipment and supplies and reconciled to the grantee's budget?
- If equipment is "on loan" or "shared" with other organizations, are costs allocated proportionally?
- Is a complete physical inventory of property taken at least every two years?
- Are the results reconciled with the property records?
- Where inventories are of great significance or where a central warehousing system is used, are perpetual inventory records maintained?
- Is property adequately tagged or otherwise identified?

- Is the property ledger maintained so that any item of property can be located and identified?
- Is the property ledger balanced monthly against the appropriate general ledger accounts?
- Are retirements and disposals properly approved and recorded?
- Are the proceeds of any liquidated property properly recorded?
- Is damaged or lost property properly treated on the accounting records?
- Are insurance recoveries properly recorded?
- If inventories of consumable supplies exceed \$500 in value, have adequate controls been established?
- Is equipment properly safeguarded?
- Are only depreciation or use allowances charged for grantee-owned buildings or buildings donated as a third-party in-kind contribution?