

Internal Control Checklist

Internal Control Checklist extracted from **Pennsylvania Public Library Accounting Manual**, September 2010 Appendix D pages 121-134. Harrisburg: Pennsylvania Department of Education – Office of Commonwealth Libraries. Funded by IMLS.

Internal Control Questionnaire

This general questionnaire identifies ideal internal control procedures that should be in place for all libraries, regardless of their size. If your library does not have many of these controls in place, you should identify the areas with the highest risk and start implementing controls in these areas first (generally cash receipt and cash disbursement). Reference <http://www.blueavocado.org/content/five-internal-controls-very-small-nonprofit> for key controls for a small non-profit.

I. Cash Receipts	Yes	No	N/A
1. Does the board annually authorize all bank accounts and check signers?			
2. Is the bank immediately notified of authorized check signers' changes?			
3. Are employees handling cash bonded (perform cost benefit analysis based on the amount of cash received)?			
4. Is access to cash records in software limited to those that require access for their job functions?			
5. Is mail opened and receipts listed by two people that do not have access to record cash?			
6. Does an employee without access to cash reconcile the above listing to the cash receipts record?			
7. Are checks restrictively endorsed "for deposit only" upon receipt?			
8. Are pre-numbered receipts completed for contributions received?			
9. Are cash receipts recorded in the general ledger by someone independent of mail opening and receipt listing?			
10. Are receipts deposited on a regular basis?			
11. Do adequate physical controls (i.e. placed in locked box) exist over cash receipts from time of mail opening until time of bank deposit?			
12. For cash collected at special events:			
a. Do individuals handling collections account for all tickets?			
b. Are cash receipts reconciled to tickets sold?			
c. Are unsold tickets accounted for?			
13. Are post-dated checks, disputed items, identified receipts, Non Sufficient Funds (NSF) checks, checks charged back by banks, and similar items received and reviewed by someone independent of deposit preparation and posting to general and subsidiary ledgers.?			

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I. Cash Receipts	<u>Yes</u>	<u>No</u>	<u>N/A</u>
14. Is the desk collection function segregated from the general ledger and subsidiary ledger functions?			
15. When required by funding sources, are restricted funds deposited to separate bank accounts or segregated in the financial reports to track compliance with the restrictions?			
16. Are receipts of currency controlled by cash register or other method that is independent of the accounting function?			
17. Are currency receipts reconciled to the totals of cash registers, pre-numbered receipts, or other devices?			
18. Is the cashing of checks by employees to use for expenses prohibited?			

II. Cash Disbursements	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Are employees with cash disbursement duties required to take vacations and are other employees required to perform those functions when an employee is absent?			
2. Is access to cash disbursement records in accounting software limited to employees whose job function requires access?			
3. Are all disbursements, except petty cash, made by check?			
4. If not, are there controls over non-check disbursements (i.e. passwords for Automated Clearing House (ACH) electronic transfers)?			
5. Check stock:			
a. Are checks pre-numbered and used in sequence?			
b. Are controls over blank check stock adequate?			
c. Is there a specified custodian for blank check stock?			
d. Do only employees authorized to prepare checks have access to stock?			
6. Check preparation:			
a. Are checks prepared by treasurer independent of voucher/invoice approval?			
b. Prior to check preparation are the following compared:			
i. Purchase order/approval			
ii. Evidence of receipt			
iii. Vendor invoice			
c. Are checks prepared from original vendor invoice only?			
d. Is there a clearly defined check approval process?			

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II. Cash Disbursements	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. Are checks recorded in disbursements journal as prepared? (note: this will automatically be done if checks are generated from the accounting system)			
f. Are all check numbers accounted for?			
g. Are voided checks properly marked, retained, and accounted for?			
h. Are all checks made payable to a specific payee and not to cash or bearer?			
7. Check signing			
a. Do check signers receive and review all supporting documentation?			
b. Are supporting documents properly marked at time of signature to prevent duplicate payments?			
c. Are check signers authorized by the library board?			
d. Do certain checks (i.e. over a dollar amount) require dual signatures?			
e. Are authorized check signers independent of:			
i. Voucher preparation and approval for payment?			
ii. Check preparation, cash receiving, and petty cash?			
iii. Purchasing and receiving?			
iv. Timekeeping for payroll checks?			
f. Is signing of blank checks prohibited?			
g. Is custody of checks after signing and before mailing handled by an employee independent of all payable, disbursing, cash, receiving, and general ledger functions?			
h. If signature stamp is used, is it adequately safeguarded, and authorized by the custodian of the stamp.			

III. Cash Reconciliations	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Are employees with bank reconciliation duties required to take vacations and are other employees required to perform those functions when an employee is absent?			
2. Are bank accounts reconciled within a timely specified period after the end of each month?			
3. Are reconciliations completed by someone independent of the receipt and disbursement of cash			
4. Does a responsible individual (i.e. Library Director) receive the bank statements directly from the bank?			

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III. Cash Reconciliations	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Do reconciliation procedures include the following with respect to deposits:			
a. Comparison of dates and amounts of daily deposits as on the bank statement with the cash receipts journal?			
b. Investigation of transfers between bank accounts to verify that both sides of the transactions have been recorded?			
c. Investigation of items rejected by the bank (i.e. deposits subsequently charge back by the bank because of insufficient funds)?			
6. Do reconciliation procedures include the following with respect to disbursements:			
a. Comparison of canceled checks with the disbursement journal as to the number, date, payee, and amount?			
b. Account for the sequence of check numbers?			
c. Examination of canceled checks for authorized signatures?			
d. Examination of canceled checks for irregular endorsements?			
e. Examination of canceled checks for alterations?			
f. Review of voided checks?			
7. Are completed bank reconciliations reviewed?			
a. Is the review documented by initialing and dating the reconciliation?			
8. Are checks outstanding for over 90 days periodically investigated?			
a. Is payment stopped and an entry made restoring such items to cash?			

IV. Petty Cash	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is the responsibility for each petty cash fund assigned to only one person?			
2. Are petty cash funds maintained using the imprest method (i.e. a check request is generated to replenish the fund to the established amount based on an exact amount of receipts)?			
3. Are petty cash funds segregated from other cash?			
4. Is there a prohibition against petty cash disbursements over a specified amount?			
5. Custodian:			
a. Is the custodian independent of employees who handle receipts?			

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IV. Petty Cash	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Are the accounting records inaccessible to the custodian?			
6. Vouchers:			
a. Is a pre-numbered voucher used for all petty cash disbursements?			
b. Are vouchers completed in full in ink or another manner that would make alterations difficult?			
c. Are vendors approved by a department head or other responsible employee other than the custodian?			
d. Are the amounts of vouchers spelled, as well as numerically written?			
e. Are vouchers properly supported by invoices or cash register tapes?			
f. Are all items contained in the petty cash fund of a current and usual nature?			
7. Reimbursements			
a. Is there an adequate review of reimbursement vouchers before reimbursements are made?			
b. Are reimbursement vouchers and attachments marked at, or immediately following, the signing of the reimbursing check, so that they cannot be reused?			
8. Is the petty cash fund periodically counted by someone independent of the custodian?			
9. Is the cashing of employee, volunteer, and donation checks out of petty cash prohibited?			

V. Investments	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is authorization for purchases and sales of investments vested with the board or other responsible committee or official?			
a. Are all investment transactions reviewed and approved by the board?			
2. Does an financial committee or designated official determine that the type of investments are permitted by funding sources and donors and that the investment income and gains are used only for purposes authorized by laws, donors, or the governing board?			
3. Are employees with investment responsibilities required to take vacations and are other employees required to perform those functions when an employee is absent?			

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V. Investments	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Are securities adequately protected, preferable in a safe, safety deposit box, or on deposit with a trustee or financial institution?			
5. Is it necessary for more than one person to authorize their release from safekeeping or to have access to the safety deposit box?			
6. Are the above people authorized by the board?			
7. Are the above people bonded?			
8. Are the above people prohibited from having access to the accounting records (manual or electronic)?			
9. Is access to investment records limited to those that need access for their job functions?			
10. Are all securities held in the name of the organization?			
11. Are detailed records maintained that include the following information:			
a. Description of investment?			
b. Date of acquisition and purchase prices (or fair market value at date of donation)?			
c. Physical location of item (i.e. safety deposit box)?			
d. Interest/dividend/income rates and accrual/receipt dates?			
e. Restrictions on segregation or pooling and on disposition or use of income or proceeds?			
f. Lapse date of any restrictions?			
12. Are recordkeeping functions for securities and investment income performed by employees who have no access to the securities, cannot authorize security transactions, and have no duties in the cash area?			
13. As investment income is received, is it deposited in the proper bank account and accurately and timely posted to the investments records?			
14. Are schedules of investments showing all income received prepared monthly and reviewed by a responsible person?			
15. Are investment earnings recorded in the proper class of net assets?			
16. Are periodic surprise counts of evidence of ownership made and reconciled to detail records and other controls?			
17. Are periodic statements from outsiders or data resulting from independent request by the board (i.e. broker's position listing) promptly reconciled to detail records?			

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VI. Payroll	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Personnel, employment, and rate authorizations			
a. Are requests for new personnel originated only by the Library Director or other responsible employees?			
b. Are investigations (i.e. background check, former employers, references) completed for all new employees?			
c. Are classes of positions and pay rates periodically reviewed for compliance with personnel procedures or other documents designating pay rate of employees?			
d. Are all employees notified in writing of the organization's personnel policies and performance reviews?			
e. Are personnel files maintained?			
i. Do they contain information on employment application and new employee investigation, date employed, pay rates, changes in pay rates and position, authorizations for payroll deductions, earnings records, W-4 form, immigration documentation, specimen signatures, and termination data, where appropriate.			
f. Are written termination notices required that properly document reasons for termination and require approval?			
g. Do physical controls exist over personnel records that prevent their loss or use by unauthorized personnel (i.e. locked, fire-proof cabinets)?			
h. Are computerized payroll records limited to employees whose job function requires access?			
i. Is the payroll processor notified promptly of any changes in personnel data?			
2. Payroll preparation and timekeeping:			
a. Timekeeping and time cards:			
i. Are attendance and time records used?			
ii. Is timekeeping independent from payroll preparation?			
iii. Are time cards or other attendance records signed by the employees?			
iv. Is approval of time by Library Director required before processing payroll?			

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v. Are changes on time cards initialed or approved by the Library Director?			
b. If payroll is processed by an outside service organization, are controls in place to ensure that:			
i. Time records submitted for processing are complete and accurate and appropriate control totals are maintained for subsequent reconciliation to payroll registers?			
ii. All other payroll information provided to the service organization (i.e. pay rates, withholdings, etc.) is authorized?			
iii. Paychecks and/or payroll registers produced by the payroll service are reviewed, reconciled to control totals, and approved prior to releasing pay checks?			
c. Employees preparing the payroll are independent of other payroll duties (i.e. timekeeping, check distribution, etc.) and don't have access to payroll records or bank accounts?			
d. Does payroll perform the following functions in preparing the payroll:			
i. Check time card/attendance records for computations of payroll period hours?			
ii. Review time card/records for approval?			
iii. Check overtime hours, rates, and computations?			
iv. Review time records for unapproved alterations?			
v. Verify pay rates?			
e. Is payroll subject to final approval by Library Director or other responsible official before payment?			
f. If checks are machine-signed, is there adequate control over the use of the signature plate, and are the procedures the same as for operational checks?			
g. Are payroll checks pre-numbered, blank stock controlled, checks used in numerical sequence, and numerical sequence accounted for and reconciled to the payroll check register?			

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h. Are voided checks properly marked, maintained, and accounted for?			
i. Do checks contain detail of gross pay and deductions?			
j. Does an adequate system exist for distributing payroll costs to the proper accounts, programs, and other functions?			
k. Are procedures in place to ensure that payroll taxes are paid timely and that payroll tax returns are filed when due?			
l. Are procedures in place to ensure that other withholdings (i.e. 401k, health insurance) are remitted in a timely manner?			
m. Are the gross and net pay amounts on tax returns reconciled to total payroll in the general ledger?			
3. Are paychecks distributed by someone independent of timekeeping or preparing payroll, checks, and envelopes?			

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4. Unclaimed paychecks:			
a. Are checks returned to an employee who is not associated with the payroll function?			
b. Is a continuing record maintained of all unclaimed wages?			
5. Year-end preparation of W-2 forms:			
a. Is the total of W-2 wages for the year reconciled to the general ledger and payroll register?			
b. Are W-2 forms that have been returned or unclaimed received and investigated by a person independent of the payroll and timekeeping function?			
6. Are employee time records maintained in sufficient detail to allow for allocations of payroll costs:			
a. To specific grants, contracts, or cost reimbursement agreements?			
b. By function; for example, by program, management, membership development, and fund-raising?			
c. To lobbying efforts?			
d. Between unrelated business income activities and activities related to the organization's purpose.			
7. Is there a comparison of actual to budgeted payroll by a responsible person and are significant variances investigated and documented?			
8. Are detailed records maintained of accrued Paid Time Off (PTO) and are they regularly reconciled to a control account.			
9. Are postemployment and postretirement benefit accruals reviewed by a knowledgeable individual to ensure they are accurate and properly recorded?			
10. Are employees with payroll responsibilities required to take vacations and are other employees required to perform those functions when an employee is absent?			

VII. Property and Equipment	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is formal board approval required for all property and equipment additions?			

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VII. Property and Equipment	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. If not, do items costing in excess of a specified amount require governing board approval?			
2. Are designated individuals responsible for verifying compliance with the terms and conditions of all grants, restricted contributions, etc.?			
3. Is formal board approval required for disposal of property and equipment?			
4. Does the organization have written policies that permit personnel to:			
a. Distinguish between capital items, repairs, and maintenance expenses?			
b. Determine the fair value of contributed property and equipment?			
5. Are detailed property and equipment records maintained that include description, date purchased or received by donation, cost or fair value at donation, donor or funding source restrictions on use or disposition?			
6. At least annually, is a physical inventory of property and equipment taken that is compared with records?			
a. Are reconciliations prepared and any discrepancies immediately followed up and explained?			
b. Are reconciliations reviewed?			
7. Is the bookkeeper informed of any material changes in the status of property and equipment items (i.e. sales, scrapping etc.)?			
8. Is equipment properly identified by numbering or another method?			
9. Are items adequately safeguarded from loss due to fire, theft, or misplacements?			
10. Are periodic insurance reviews and appraisals made?			
11. Are periodic reviews of the carrying values of property made to assess whether such values are adequate to be recoverable in the ordinary activities of the organization?			
12. Is access to electronic fixed asset records limited to those that require access for their job functions?			

VIII. Inventories	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is inventory (i.e. collection) adequately safeguarded against loss, theft, physical deterioration, and misuse?			
2. Are perpetual inventory records maintained, both in dollars and in quantities, and periodically balanced to the general ledger.			

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VIII. Inventories	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Are periodic physical inventories taken and balanced to the perpetual records?			
a. Are there written instructions for such counts?			
b. Are material differences investigated and explained?			
4. Do adjustments to the inventory records require management approval?			
5. Are inventories covered by insurance?			
6. Is access to electronic inventory records limited to those that require access for their job functions?			

IX. IT controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. IT strategic planning:			
a. Is a management steering committee responsible for reviewing and approving IT plans and policies?			
b. Does the Library conduct regular risk assessments and appropriately address noted risks?			
c. Are all outside service providers evaluated before contracting to determine the potential impact on controls and the financial statements?			
2. Back-up and recovery:			
a. Does the library have a backup and data retention policy/schedule specifying how often backups are performed, how long they are retained, and where backup media is stored?			
b. Are application data backups performed to minimize the risk of lost or corrupted data? Are backup tapes or other media secured (accessible only by authorized personnel)?			
c. Are application data recovery procedures tested at least once annually to ensure data integrity and recovery?			
d. Are file server backups performed to minimize the risk of lost or corrupted data? Are backup tapes or other media secured (accessible only by authorized personnel)?			
e. Are file server recovery procedures tested at least once annually to ensure data integrity and recovery?			
f. Is batch processing controlled and monitored to ensure proper completion?			
g. Is access to scheduled job content and to the scheduler properly controlled?			

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h. Do interfaces between systems include appropriate controls to ensure the complete and accurate transfer of data?			
i. Do appropriate environmental controls exist to ensure the security and reliability of equipment in data centers and other technical facilities (i.e. fire/smoke detection and fire suppression, temperature and humidity controls, and an uninterruptible power supply and/or backup generators where required)?			
3. Logical security:			
a. Does an information security policy exist that defines information security objectives? Is this policy supported by documents standards and procedures where necessary?			
b. Do procedures exist and are they followed to ensure timely action relating to requesting, establishing, issuing, suspending, modifying, and closing user accounts?			
c. Are new user accounts in the network, application, and database environments set up in response to properly authorized requests from management?			
d. When user access rights are modified (due to job transfers or other reasons), are the access rights of these users reviewed in order to remove access rights that are no longer needed?			
e. Are additional access rights only granted in response to properly authorized requests from management?			
f. Are user access rights removed or suspended in a timely manner when employees are terminated? Do standards exist to define timeliness requirements for various situations (i.e., voluntary or involuntary termination)?			
g. User access rights (network, application, and database) are granted on a need-to-know, need-to-do basis.			
h. User access rights (network, application, and database) support necessary segregation of duties (as defined by the financial areas' reliance on automated controls).			
i. Segregation of Duties Controls:			
i. Are IT personnel prohibited from performing accounting duties and other functions normally provided by end users?			

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IX. IT controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
j. Do application data owners perform a periodic review of user access rights for all in-scope applications (and network access when required)?			
k. Is database access, including the ability to read, modify, or delete key financial data either directly or via Open Database Connectivity (ODBC), appropriately restricted?			
l. Are procedures in place and followed to maintain the effectiveness of authentication and access mechanisms (e.g., password length, password history, password expiration, and lockout for failed attempts)?			
m. Use of shared ID's is prohibited except for limited, read-only access?			
n. Are access rights to generic ID's limited?			
o. Is physical access to computer room, file/communication servers, off-line data storage, and other sensitive storage appropriately restricted to authorized personnel? Is access reviewed for appropriateness on a periodic basis?			
p. Are controls over perimeter and network security in place (i.e. firewalls, routers, terminal service devices, wireless security, intrusion detection, and vulnerability assessments where appropriate)?			
q. Are software users prohibited from having access to source code, the compiler, and programming documentation?			
4. Change Management			
a. Are formalized change management policies and procedures in place and updated as required?			
b. Are application, database, and operating system changes tracked in a centralized change tracking database or system?			
c. Is user acceptance documented prior to migrating application and database changes to production?			
d. Are operating system changes approved by IT management?			
e. Is source code version control maintained via change control software or other means for applications where the entity has source code, application?			

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f. Are emergency changes at the application, database, and operating system levels documented and subject to formal change controls, including review after the fact and notification of data owners for approval is prompt when appropriate?			
g. Are controls are in place to allow only authorized individuals to migrate application programs to production for applications where the entity has source code?			
h. Is a formal change management policy in effect that documents the minimum requirements for change control and system development on an entity-wide basis? The policy should address requirements to consider system security, availability, and processing integrity where appropriate, including in application controls, in the development of new systems, and in major changes to existing systems.			
i. Are application controls formally considered and documented during the implementation of new information systems.			
j. Are subject matter experts (as indicated by the application data owner) involved in deriving application system requirements?			
k. Is a test plan developed and followed for all major implementation projects, including unit, system, integration, interface, and data conversion testing, as appropriate?			
l. Is user acceptance testing completed and documented on all user-requested projects prior to the move into production?			