CITY OF BURLINGTON COSO FRAMEWORK & COMPLIANCE

Committee of Sponsoring Organizations of The Treadway Commission

Points of Focus – Principle 1. The organization demonstrates a commitment to integrity and ethical values. Supporting Points of Focus:* Sets the tone at the top

Executive Summary

Internal control helps entities achieve important objectives and sustain and improve performance. COSO's *Internal Control—Integrated Framework (Framework)* enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision making and governance of the organization.

The COSO *Framework* assists management, City Councilors, Boards of Finance, external stakeholders, and others interacting with the entity in their respective duties regarding internal control without being overly prescriptive. It does so by providing both understanding of what constitutes a system of internal control and insight into when internal control is being applied effectively.

For all organizations, the COSO *Framework* provides:

• A means to apply internal control to any type of entity, regardless of industry or legal structure, at the levels of entity, operating unit, or function

• A principles-based approach that provides flexibility and allows for judgment in designing, implementing, and conducting internal control—principles that can be applied at the entity, operating, and functional levels

• A means to identify and analyze risks, and to develop and manage appropriate responses to risks within acceptable levels and with a greater focus on anti-fraud measures.

• An opportunity to expand the application of internal control beyond financial reporting to other forms of reporting, operations, and compliance objectives.

For external stakeholders of an entity and others that interact with the entity, application of this *Framework* provides:
• Greater confidence in the City of Burlington's oversight of internal control systems.

• Greater confidence regarding the achievement of entity objectives.

• Greater confidence in the organization's ability to identify, analyze, and respond to risk and changes in the business and operating environments.

• Greater understanding of the requirement of an effective system of internal control.

The following pages is a high level view on how to implement

COSO, and guiding principles.

Please note STEP 4, the <mark>Sarbanes – Oxley Act</mark>, more commonly called <mark>"SOX"</mark> is a United States federal law that set new or enhanced standards that top management must individually certify the accuracy of financial information. Prior to SOX federal and state laws didn't establish specific standards for corporation in compiling information. The result of SOX has resulted in a higher standard in Corporation's financial reporting, and has had a ripple effect in municipal and Non-profit reporting and accountability.

The Five-Step Transition

STEP 1
DEVELOP AWARENESS, EXPERTISE, AND ALIGNMENT

STEP 2
CONDUCT PRELIMINARY IMPACT ASSESSMENT

STEP 3
FACILITATE BROAD AWARENESS, TRAINING, AND COMPREHENSIVE ASSESSMENT

STEP 4
DEVELOP AND EXECUTE COSO TRANSITION PLAN FOR SOX COMPLIANCE

STEP 5
DRIVE CONTINUOUS IMPROVEMENT

Table 2: 17 Principles

Here are the titles of the 17 internal control principles by internal control component as presented in COSO's 2013 Framework:

CONTROL ENVIRONMENT
1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority, and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

RISK ASSESSMENT
6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

CONTROL ACTIVITIES
10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

INFORMATION & COMMUNICATION
13. Uses relevant information
14. Communicates internally
15. Communicates externally

MONITORING
16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

Introduction

According to COSO, there are critical steps we should take to shift the organization's tone at the top and culture to a City-wide mindset of accountability and effective risk management. We need to change our culture to embrace change, and we must continue to step up to accountability.

"The implementation of COSO will require a full commitment of top management, will be a part of our culture at the City, and part of our daily work life."

Internal control is a City-wide process of managing and monitoring operating, financial and compliance activities designed to provide reasonable, not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

For the purposes of this summary, the term internal control refers specifically to internal control over financial reporting. Internal control is not one event or circumstance, but a series of actions and activities that are built into the management process for the City of Burlington. When internal control is operating at its best, management will have reasonable assurance that:
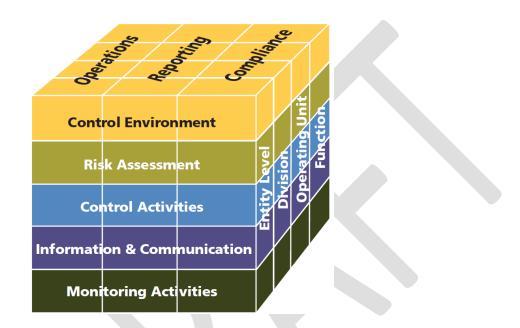
- They understand the extent to which the City's operating objectives are being achieved
- Annual financial statements are being prepared reliably
- Applicable laws and regulations are being complied with
- Assets are being safeguarded

The Committee of Sponsoring Organizations of the Treadway Committee (COSO) was formed to sponsor the National Commission on Fraudulent Financial Reporting. In 1992, COSO published Internal Control - Integrated Framework, which established a framework for internal control and provided evaluation tools that businesses and other entities could use to evaluate their internal control systems. This summary is based on that framework which identifies five interrelated components, which work together to create a process of control. Weak controls in one area can be offset by strong controls in another area. The five interrelated components of internal control identified by COSO are:

- Control Environment
- Risk Assessment
- Information and Communication
- Monitoring
- Control Activities

The relative strength of an institution`s internal control depends in large part on the actions of management and how well individuals understand their responsibilities and how they

relate to internal controls. Thus, internal controls need to be communicated, and employees need to be trained and educated in order for them to be most effective. The following documentation describes the five components of internal control and demonstrates the internal controls that have been implemented by the City of Burlington as documented by our Standard Operating Policies. This documentation will serve to both communicate and educate employees on the City's internal control efforts.

Control Environment

The control environment is the general tone or climate regarding internal controls throughout an institution. The major themes of the control environment include governance, integrity and ethical values, management style/philosophy, accounting and business competencies, personnel policies and human resources. These elements are essential in the administration and monitoring of all other control components.

In general, the City of Burlington's control environment is described in the following manner. The management philosophy is set by the Mayor's Office, City Council, and Board of Finance and will be directed by the Clerk Treasurer office. The administration at the Clerk Treasurer office will continually show its commitment to effective internal control by demonstrating ethical behavior (leading by example) and providing guidance to department managers, and staff for proper behavior. This includes being proactive, accountable, honest, respectful, dependable, timely and using cities resources efficiently. The Clerk Treasurer office will be the primary driver of COSO on a daily basis with guidance and direction from the top.

Further, the administration will be committed to competence. Therefore, appropriate human resource policies ensure that employees who are hired have the necessary knowledge, skills, and experience to perform their function within the institution. The City of Burlington employees will receive appropriate training and career development opportunities. The organizational structure is set up to provide for appropriate delegation of responsibility and authority as well as adequate supervision for operating activities at all levels. Additionally, the Clerk Treasurer's office will be involved in activities with external auditors and will be independent of management. The Clerk Treasurer's office has implemented the following specific controls which support their description of their control environment above.

Those charged with governance are actively involved and have significant influence over the institution's internal control environment and its financial reporting. They have also implemented active committees, which operate under properly designed governance guidelines and handbooks. These groups meet frequently enough to address important oversight responsibilities, and the members demonstrate a sufficient level of knowledge of finance' accounting and regulatory requirements and City operations. Frequent e-mails, telephone discussions and board/committee discussions are used to keep those charged with governance aware of key developments that may impact financial reporting.

An audit committee will meet directly with management and external auditors to address any questions that arise in their discussions with regard to accounting policies and accounting estimates. They have at least one "financial expert" on the audit committee to lead these meetings and oversee the City financial reporting, including the application of GAAP and use of accounting judgments. The audit committee and other governing boards consistently evaluate the level of accounting and finance expertise of its members and they use succession planning to review members' terms and identify where weaknesses could occur when terms expire. They use this planning to determine the qualifications of new candidates in order to provide continually adequate oversight to the City.

The organizational structure of the City is appropriately designed to promote a sound control environment. The governing boards and management periodically evaluate the organizational structure and make changes based on changes in its activities and/or industry and, currently, the organizational structure is commensurate with the cities' activities. Management follows a disciplined, objective process in selecting accounting principles and developing estimates and uses this process to establish and clearly communicate reporting objectives, including goals related to internal control over financial reporting.

Part of this process includes ensuring that there is no single individual capable of exerting substantial influence over the City's affairs. The Clerk Treasurer's office establishes internal reporting responsibilities for each department, program or other functions that are consistent with the objective of achieving effective internal control over financial reporting, and the Human-Resource Department provides employees with job descriptions and reference

manuals to communicate to employees these responsibilities. These reporting responsibilities include departments accepting ownership of data, including who is authorized to make and/or modify transactions. Employees are empowered to correct problems or implement improvements in their assigned processes as they are recognized.

The City has adequate supervision and monitoring of decentralized operations, including accounting personnel and information systems, and there is a process in place to discuss applicable laws and standards and establish controls to verify the effectiveness of required disclosures.

Management, through its attitudes and actions, demonstrates character, integrity and ethical values, which set the standard of conduct for financial reporting for the City as a whole. Management, employees and others within the City are made familiar with the institution's policies and practices with regards to ethics and accepted business practices through a code of conduct and the use of a fraud policy, a fraud risk assessment, governance guidelines and management and staff manuals. Management also follows ethical guidelines in dealing with external parties, including suppliers, contributors, creditors and insurers. Conflict of interest policies have been adopted at the Clerk Treasurer's office level and have been included in the employee handbook to stress these guidelines. Such policies include City of Burlington's position on appropriate business transactions with affiliated institutions and customers. These policies have been communicated to employees and board members.

All key changes in relationships with external parties, including lawyers and auditors, are approved by management and related to employees to ensure that there are no new conflicts of interest created with these changes. As far as financial integrity is concerned, management sets realistic yet conservative budgets with which employees are expected to operate under.

Management's philosophy and operating style is consistent with a sound control environment and have a pervasive effect on the City. Management analyzes the potential benefits, and key risk drivers associated with each of its new ventures. The management team discusses the amount of risk they are willing to accept in evaluating the possibility of implementing fresh projects.

Management regards the accounting function as a means for monitoring and exercising control over the entity`s various activities and sets the tone that high-quality and transparent financial reporting is expected. A disciplined, objective process, including discussions with staff, boards and external auditors, is used in selecting accounting principles and developing estimates. Management also uses this process to assess internal controls and correct any known weaknesses in internal controls on a timely basis. Staff meetings and annual fraud risk assessments are used to regularly educate and communicate to management and employees the importance of internal controls and to raise their level of understanding of existing controls and any changes that have been implemented.

The City is committed to competence in the requirements of particular jobs and in translating those requirements into knowledge and skills. Management demonstrates a commitment to provide sufficient personnel to keep pace with the growth and/or complexity of activities and as such; all departments will have a goal to be adequately staffed. Employees of the City have the competence and training necessary for their assigned level of responsibility or the nature and complexity of the entity's activities. Before hiring new employees, the institution evaluates job descriptions and compares potential employees' knowledge, skills, abilities and credentials before making hiring decisions, especially for key positions. Employees per the Human-Resource handbook are subject to periodic evaluations of job performance and competencies.

Human Resource (HR) policies and procedures, established by management, send messages to employees regarding expected levels of integrity, ethical behavior and competence. The HR Department has formal procedures for the hiring and retention of employees. Recruitment and retention practices for key financial positions are guided by principles of integrity, and by the necessary competencies associated with the positions. Recruiting practices include formal, in-depth employment interviews that provide applicants with information on the history, culture and operating style of the institution and stress City's attitude toward a strong control environment. Reference and background checks are performed, especially for individuals applying for managerial positions or positions with access to assets susceptible to misappropriation. Staff and employee handbooks exist that educate employees on human-resource policies and procedures. These handbooks are updated regularly to provide employees with the most up-to-date information and are used in conjunction with ongoing training for employees. Employees are also monitored on an ongoing basis to evaluate employee performance and compensation. Turnover of management and supervisory personnel is monitored through the use of exit interviews with the Human Resources Department, and the reasons for turnover are evaluated.

Risk Assessment

Risk assessment is the ongoing process of identifying and analyzing relevant business risks that must be managed in order to meet the objectives set by the Mayor's Office, City Council, and Board of Finance. This being said, a precondition to risk assessment is the establishment of objectives. The financial reporting objectives set by Clerk Treasurer's office relates to the preparation of reliable financial statements, which are fairly presented in conformity with generally accepted accounting principles. Clerk Treasurer's compliance objectives relate to conforming with applicable state and federal laws and regulations relating to taxes, employment, the environment, grant guidelines and OMB circulars. Factors to consider with regards to identifying risks include: past experience to meet objectives, quality of personnel, changes in competition, regulations, personnel, geographic distributions and the significance and complexity of the activity. Based on these considerations, Clerk Treasurer's office has implemented the following controls to ensure the continual assessment of risks within

the City.

Clerk Treasurer's Office (CTO) evaluates risks as part of its planning process on a day to day basis and recognizes the potential for fraud in high-risk areas of the City, including revenue recognition, management override, accounting estimates and nonstandard journal entries. In their assessment of these high-risk areas, CTO considers incentives and pressures, attitudes and rationalizations, as well as the opportunity to commit fraud and has implemented appropriate control activities to mitigate these risks. (See the Control Activities section) A fraud risk assessment is used annually to track fraud risk factors that have been identified by the City. When such risks are identified, existing controls are examined to determine that appropriate actions have been taken to address them. Most importantly during this risk assessment, management identifies and tracks risks related to laws and regulations that affect financial reporting, including the requirements of GAAP. CTO continually updates their accounting manuals and monitors personnel changes to identify changes within operating practices that may affect the method or process of recording transactions and the application of GAAP. In addition, the City will review and take action steps as identified in the Management Letter provided by outside auditors. The accounting department has also helped in this area by putting a process into place to maintain a current knowledge of GAAP principles and other relevant pronouncements and can identify and address changes that have an impact on the City.

Information and Communication

Necessary information must be identified, captured and communicated in a form and time-frame that make it possible for employees to carry out their responsibilities. Controls over information and communication are needed to ensure that this happen. CTO has implemented several controls in this area to help guarantee that management, and the City Council and Board of Finance receives the documentation they need to make timely decisions. All personnel, particularly those in roles affecting financial reporting, receive a clear message from top management that both internal control over financial reporting and individual control responsibilities must be taken seriously, and all employees receive adequate information to complete their job responsibilities.

Information relevant to financial reporting is identified, captured, processed and distributed within the parameters established by the City's control processes to support the achievement of financial reporting objectives. The chart of accounts is adequate to maintain accountability and provide information on important reporting items such as permanently restricted, temporarily restricted and unrestricted resources, functional reporting of expenses, tracking of unrelated business income and applicable expenses, tracking of project-related costs and compliance with terms and conditions of grants. This data, and other data underlying the financial statements, are captured completely, accurately and timely, in accordance with the City's policies and procedures and in compliance with laws and regulations. Operating

information used to develop the accounting and financial information serves as a basis for reliable financial reporting and operating information is used as a source of accounting estimates. Financial personnel receive detailed information when reviewing financial results, and they meet with Board of Finance, City Council, and Department managers to analyze and discuss operational results.

Communication exists between management, and those charged with governance so that both have relevant information to fulfill their roles with respect to governance and to financial reporting objectives. The effectiveness of those charged with governance is supported by timely communications and open communication channels exist. Upstream communication is used by management to improve performance and enhance internal control.

Personnel have an effective and non-retributive method to communicate significant information, especially related to fraud and fraud risks, upstream in the institution. The whistle blower process built in to the City's Fraud Policy allows for anonymity for individuals who report possible improprieties and all reported potential improprieties are reviewed, investigated and resolved in a timely manner.

Monitoring

Monitoring is a process of assessing the quality of a system's performance over time. CTO does currently have an internal audit function or other internal monitoring processes in place to evaluate their control systems. CTO's internal control is monitored informally and formally through supervisory activities and reconciliations. CTO has external means of monitoring their controls as well. Independent auditors annually provide suggestions for strengthening internal controls and identify to CTO any deficiencies noted throughout their fieldwork. CTO does their best to evaluate findings of employees and the external auditors to determine and implement the best course of action to correct the control issues at hand.

The City's ongoing monitoring serves as a primary indicator of both control operating effectiveness and of risk conditions and provides feedback on the effective operation of controls integrated into processes and on the processes themselves. This monitoring is built into operations throughout the institution and includes explicit identification of what constitutes a deviation from expected control performance, thereby signaling a need to investigate both potential control problems and changes in risk profiles.

The Mayor's Office, City Council, and Board of Finance are very active in using the Management Reports from external sources, such as independent auditors, in considering internal control implications and ensuring that timely remedial actions are identified and taken. Deficiencies noted that affect internal control over financial reporting are communicated regularly and as necessary by those charged with governance to management and the individual who owns the process and control involved and who is in the position to take corrective action.

Control Activities

It serves as the first line of defense in preventing and detecting errors and fraud. Since the internal control process is affected by individuals, it cannot provide absolute assurance that the City is achieving its objectives, but rather provides only reasonable assurance. Internal control is subject to inherent limitations such as cost-benefit considerations, faulty human judgments, management override and employee collusion. Because of these inherent limitations, internal control systems operate at different levels of effectiveness.

Control activities are the policies and procedures that ensure necessary actions are taken to mitigate risks. A policy establishes what should be done whereas procedures are actions by people to implement stated policies. CTO performs a wide range of control activities, including, but not limited to, top level review, authorizing, verifying, reconciling, segregating duties, restricting access to assets and appropriately documenting transactions and information processing. CTO's internal control activities are extensive and are documented in the Human-Resource Policy, Procedure Manual, and are posted to the City website. The following is documentation of the procedures used for several of CTO's important operating areas and/or identification of the key controls for each area.

City of Burlington

Table of Contents

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OFFICE OF THE CLERK/CHIEF ADMINISTRATIVE OFFICER

Key Controls – Journal Entry

ID: **100 - Key Controls**		**Journal Entry**	
Effective Date: 06/30/2014	Last Revision:	Version: 1.0	Total Pages: 2

The questionnaire focuses on the financial close process, specifically manual journal entries in the consolidation system. This document includes a process description, key risks, expected key controls, and key questions to ask during this process review.

In this part of the financial close process, Financial Reporting may be made aware of entries that need to be posted once information is entered into the consolidations system. This may be the result of analysis completed by the location or by the Financial Reporting group.

Financial Close Process Questionnaire - Manual Journal Entries in the Consolidations System

Description
Once information is entered into the consolidations system, Financial Reporting may be made aware of entries that need to be posted. This may be the result of analysis completed by the location or by the Financial Reporting group.

Key Risks
1. Access to enter/post manual journal entries in the consolidations system is inappropriate.
2. Manual journal entries in the consolidations system are inaccurate.
3. Manual journal entries in the consolidations system are incomplete.
4. Manual journal entries in the consolidations system are unauthorized.
5. Manual journal entries in the consolidations system are not made timely.
6. Manual journal entries in the consolidations system are not supported.

Expected Key Controls
1. Access to enter/post manual journal entries in the consolidations system is restricted to those with a valid business need.
2. Review and approval of manual journal entries in the consolidations system by (someone with appropriate authority).
3. Manual journal entries in the consolidations system require supporting documentation.
4. Deadlines for submitting and entering manual journal entries in the consolidations system are included on the close calendar or Financial Reporting calendar.
5. Financial Reporting maintains documentation to support the manual journal entries in the consolidations system.

Questions to Ask
1. Describe the process to enter/post manual journal entries in the consolidations system. *Make sure they cover the questions below.*
2. Who is responsible for entering/posting manual entries in the consolidations system?
3. Who has access to enter/post journal entries in the consolidations system?
4. What is the timeframe for posting journal entries in the consolidations system? What is the ultimate deadline?
5. Does someone review/approve the journal entries posted in the consolidations system?
6. Does Financial Reporting communicate the entries to the location affected? If so, how? Does Financial Reporting verify that the location made the entry in their G/L?
7. What documentation is retained?

OFFICE OF THE
CLERK/CHIEF ADMINISTRATIVE OFFICER

Key Controls – Cash Disbursement

ID: **110 - Key Controls**		**Cash Disbursements**	
Effective Date: 06/30/2014	Last Revision:	Version: 1.0	Total Pages: 2

This is a preliminary assessment questionnaire that is used by the Clerk Treasurer's Office. It is intended to help the finance and accounting better understand existing business processes and management's view of the internal control environment, and to identify key controls.

Cash Disbursements Process Background Information:
The cash disbursements process is the process by which a company pays its bills and deals primarily with the issuance of checks or wire payments. This process immediately follows accounts payable and in some areas overlaps it. This process should cover the how a disbursement is started (e.g., receipt of an invoice), authorities, approvals, check writing and signing, and mailing disbursements. Please document the "who, what, when, where, and how" of each activity in the process.

General:

Who is the manager responsible for the cash disbursements process?	
How many FTEs are in the cash disbursements process?	

Cash Disbursements Authority:

Who has check signing authority?	
Is the person who signs checks also the person who prepares and mails the check?	
Are there check signing limits (i.e. "everything over $1,000 requires 2 signatures)?	
Who and what are the limits for authorized signors and for which accounts?	
What are the controls in place in order to ensure that the amount being disbursed is the amount owed per the invoice?	
Who performs the function of printing out checks?	
Is this person different from the employee that posts the invoice to the A/P SubLedger?	

Is management's approval necessary in order to open a bank account?	

Timing of Cash disbursements:

Are there system controls alerting the user that certain invoices are approaching their due date and should be paid?	
What are the standard review procedures in order to ensure timely payment of invoices?	
Is there a standard procedure in which someone ensures that the withholdings (e.g. benefits and tax) are paid on a timely basis and when due?	

Check requests:

What is the process for requesting checks for payments needed without invoices?	
Who performs this process?	
Is there a standard check request form?	
If so, what are the necessary approvals for a check to be requested?	
Are the checks system-generated?	
Under what circumstances would a manual check be written?	
How many manual checks are written per month?	
Who has access to the check stock?	
Is the check stock locked?	
Does somebody compare the purchase order to the invoice and receiving reports before preparing a disbursement?	
Who performs this function?	

Checks:

Who cuts checks?	
Does she/he have a standard procedure that he/she follows in order to ensure that the checks have the proper approvals?	
How often are checks cut?	
To whom are they given once they are cut?	
Who puts together voucher packages and files them?	
Is there a check stub/check copy that is included with the voucher package?	
What is the standard procedure for voiding checks?	

Wire Transfers:

Who has the authority to request wire transfers?	
Is this performed online?	
Are there passwords in order to ensure that access is restricted for electronic payments?	
Are there limits for electronic payments?	
Are there any additional approvals required for an electronic payment?	

Approvals:

What is the hierarchy of approvals required for invoices, checks, and electronic payments?	
Are there pre-established limits with different levels of approvals needed?	

Reconciliation:

Who reconciles the operating account on a monthly basis?	
Does someone reconcile and follow-up on outstanding checks to vendors?	
Is there a standard policy where a check has been outstanding for a certain amount of time and is reclassified to A/P?	
Does someone reconcile the A/P account on a regular basis and compare any reconciling items to the outstanding checks for that period?	
Does anyone perform variation analytics between periods on a regular basis (e.g. A/P as of 3/31/02 vs. 3/31/03)?	

System:

Does the system alert the user if an invoice number is being paid twice?	
Once the checks are printed, how does A/P get relieved?	
Does the system automatically reduce the A/P when the checks are printed?	

Internal Control Assessment
How would you evaluate the effectiveness of the current process in achieving the following control objectives. Use a scale of 1 to 5, with 1=Not effective and 5=Highly effective.
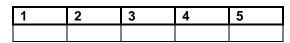
Evaluation

Control Objective	1	2	3	4	5
Checks are properly authorized.					

	Control Objective	**1**	**2**	**3**	**4**	**5**
	Check signing is separate from check printing.					
	Wire transfers are properly authorized and within limits.					
	Invoices are not paid too soon.					
	Invoices are not paid too late.					
	Invoices are not paid twice.					
	Invoices are compared to purchase orders before checks are cut.					
	Checks are reconciled to A/P					

How would you rate the overall *quality* of this process? Use a scale of 1 to 5, with 1=Poor and 5=*Best Practice* or *Best in Class*.

1	**2**	**3**	**4**	**5**

Are there *internal control* concerns related to this process which require immediate attention? If so, please describe.

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Are there adequate resources to effectively and efficiently perform this process? If not, please describe.

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Are there any other general concerns related to this process which should be brought the attention of the Internal Audit team as part of their review? If so, please describe.

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OFFICE OF THE
CLERK/CHIEF ADMINISTRATIVE OFFICER

Key Controls – Fixed Assets

ID: **120 - Key Controls**		**Fixed Assets**	
Effective Date: 06/30/2014	Last Revision:	Version: 1.0	Total Pages: 2

Fixed Assets – Internal Control Assessment Questionnaire

This preliminary assessment questionnaire is used by the Clerk Treasurer's Office to review our process prior to the year-end audit. This assessment helps with our internal control and identifies key control areas.

Fixed Assets Questionnaire

Questionnaire Instructions: The following questionnaire has been prepared by the Internal Audit department to assist us in helping you determine whether the controls you have established are operating effectively. Please respond to these questions as accurately as possible and feel free to insert comments and further explanations as you deem necessary.

Process Background Information:

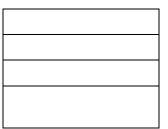|	
Manager responsible for process	
Number of FTEs in capital expenditure process	
Is physical inventory performed of fixed assets	
Is the detailed ledger reconciled to the general ledger on a regular basis. How frequently	

Internal Control Assessment

How would you evaluate the effectiveness of the current process in achieving the following control objectives. Use a scale of 1 to 5, with 1=Not effective and 5=Highly effective.

Control Objective	*Evaluation*				
	1	**2**	**3**	**4**	**5**
1. Property acquisitions and dispositions are properly authorized					

2. Fixed asset transactions are completely and accurately recorded on a timely basis

3. Fixed asset transactions are reliably processed and reported

4. Recorded balances are substantiated

5. Recorded balances are evaluated

6. Employees and management are provided the information they need to control the capital expenditure process

7. Fixed assets are safeguarded

8. Cost overruns and non-budgeted costs are controlled

Are there *internal control* concerns related to this process which require immediate attention? If yes, please describe.

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Are there adequate resources to effectively and efficiently perform this process? If not, please describe.

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How would you rate the overall *quality* of this process? Use a scale of 1 to 5, with 1=Poor and 5=*Best Practice* or *Best in Class*.

1	2	3	4	5

Are there any other general concerns related to this process which should be brought the attention of the Internal Audit team as part of their review? If yes, please describe.

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OFFICE OF THE CLERK/CHIEF ADMINISTRATIVE OFFICER

Key Controls – Bank Reconciliation

ID: **120 - Key Controls**		**Bank Reconciliation**	
Effective Date: 06/30/2014	Last Revision:	Version: 1.0	Total Pages: 3

The Clerk Treasurer's Office had an audit finding that our bank reconciliations were not timely. We have identified the following risks by asking why are Bank Reconciliations are important?

1. Bank reconciliations may uncover differences that may need further investigating.
2. Bank reconciliations help to safeguard cash by detecting errors on the part of the bank and/or the municipality when recording activities in accounts.
3. Bank reconciliations can make you aware of recording errors and other problems more quickly by enabling you to isolate the problem.
4. Bank reconciliations help to create stronger internal control, whereby accountability over cash assets is greatly enhanced.
5. Bank reconciliations ensure that account balances are accurate, and that they reflect the true financial position of the City of Burlington, so governing bodies can make more informed decisions.

To address this issue and reduce our risks we have incorporated the following Standard Operating Policy for Bank – Cash Accounts Reconciliations

OFFICE OF THE CLERK/CHIEF ADMINISTRATIVE OFFICER

Prepared By:	
Approved By:	
Revision Date:	
Effective Date:	

BANK – CASH ACCOUNTS RECONCILIATIONS POLICY

POLICY AND PROCEDURE

PROCEDURES

1. Enter account number and account name at top of account reconciliation template.

2. Enter month-end date at top of account reconciliation template.

3. Obtain bank statement for the respective month. Enter the ending bank statement balance into the cell for the counterparty balance on the account reconciliation template.

4. Obtain general ledger detail for the respective period. Enter the ending general ledger account balance into the cell for the general ledger balance on the account reconciliation template.

5. Generate list of outstanding checks:

   • Compare the check register for the period to the bank statement, noting any check numbers that were written during that period but have not yet cleared the bank.

   • Review the prior month's cash account reconciliation for outstanding checks to determine whether they are still outstanding as of the current month-end.

6. Enter outstanding checks into the section of account reconciliation template labeled "credits recorded in general ledger not accounted for by counterparty."

7. Review all individual transactions in the general ledger to determine whether there is a corresponding entry on the bank statement for items such as deposits, wire transfers, withdrawals, etc. For individual items that have not been recorded in both the general ledger and the bank statement, these will be reconciling items on the account reconciliation template, and a determination will need to be made as to where they will appear in the account reconciliation template.

   Examples of items/transactions that would be entered in each section of the account reconciliation template can include, but are not limited to, the following:

"General Ledger" Column of Reconciliation Template

- Credits recorded by counterparty not accounted for in general ledger

  - Interest income earned in the bank account, but not yet recorded in the general ledger

  - Deposits or transfers into the bank account, but not yet recorded by the bank

- Debits recorded by counterparty not accounted for in general ledger

  - Bank account maintenance fees charged by the bank and deducted from the account balance, but not yet recorded in the general ledger

- Known errors in general ledger (present decreases as positive, increases as a negative)

  - Errors discovered during the reconciliation process as having been recorded incorrectly in the general ledger and need to be corrected. These items are either added to or subtracted from the recorded general ledger balance in order to arrive at the "adjusted general ledger balance," or what the period-end general ledger balance should be. Appropriate journal entries will be required to be recorded in order to correct these identified errors and should be done on a timely basis. Additionally, reference to the journal entry numbers for the corrections should be documented on the reconciliation template.

"Counterparty" Column of Reconciliation Template

- Debits recorded in general ledger not accounted for by counterparty

  - Deposits or transfers into the bank account recorded in the general ledger, but not yet by the bank. These can include items that are "in-transit" as of month-end.

- Credits recorded in general ledger not accounted for by counterparty

  - Outstanding checks – checks that were written prior to the period-end but have not yet cleared the bank

- Known errors in subsystem (present decreases as positive, increases as negative)

  - Errors discovered during the reconciliation process as having been recorded incorrectly by the bank and need to be corrected. These items are either added to or subtracted from the month-end bank balance in order to arrive at the "adjusted bank balance," or what the period-end bank balance should be. Appropriate follow-up action will need to be pursued with the bank in order to ensure that these known errors are corrected on a timely basis.

8. The reconciliation is complete when the adjusted balances for the general ledger and the counterparty are equal, and all reconciling items are noted and contain an adequate and complete description to note the nature of the reconciling item.

9. Preparer to enter name/initials at top of account reconciliation template when reconciliation is complete.

10. Reviewer to enter name/initials at top of account reconciliation template when review of reconciliation is complete.

The reconciliation summary file is updated with status of completion of account reconciliation template as individual reconciliations are completed