

Several New Hampshire communities have been the unfortunate victims of costly fraudulent activities in their municipality. Although there are many reasons why an otherwise trusted employee commits fraud, one of the primary factors contributing to fraud is an inadequate system of internal controls. “Internal controls” refer to those steps taken to protect a municipality’s assets. When properly designed and maintained, such internal controls are a useful tool in preventing or detecting significant errors, irregularities (intentional misstatements) or theft of assets. A municipality’s system of internal controls should include all of the policies and procedures necessary to provide reasonable assurance that financial information is reliable, that operations are effective and secure, and that there is compliance with applicable laws and regulations.

Internal control procedures generally fall into one of the following categories: (1) authorization controls (advanced written approvals); (2) record controls (sequential numbering of forms, automatic duplicates); (3) security controls (controlled access, physical security, backup and disaster recovery for computers); (4) segregation of incompatible duties (inability of one individual to authorize a transaction, record the transaction and maintain custody of the asset); (5) personnel policies (hiring procedures, job descriptions, code of employee conduct, performance evaluations); and (6) periodic reconciliations, verifications and analytic review.

The following self-assessment checklist has been compiled to assist local government officials in assessing their municipality’s internal control environment for accounting and financial reporting purposes, and to provide guidance in implementing controls where weaknesses are perceived. Proceed through the questionnaire and circle “Y” (Yes) or “N” (No) in response to each question. After completing the questionnaire, scan the answers in the “Response” column, noting whether the answers are aligned to the left or right side of the column. Answers on the left side of the column indicate the internal control is in place; answers on the right side indicate a potential internal control weakness. This basic checklist should provide an indication of the number and type of internal controls that may need attention.

Reference documents used in the compilation of this checklist included, *Evaluating Internal Controls—A Local Government Manager’s Guide* and *An Elected Official’s Guide to Internal Controls and Fraud Prevention*. Both publications are available from the Government Finance Officers Association Web site at www.gfoa.org.

"Evaluating Internal Controls, A Local Government Manager's Guide", S. Gauthier, Government Finance Officers Association (GFOA), Chicago, 01., 1996.

Internal Control Guidebook 2010, National Association of State Comptrollers:
https://sao.wa.gov/sites/default/files/2023-04/Prevention_IC_guidebook.pdf

After completing the questionnaire, scan down your answers in the "Response" column, noting whether they are aligned to the left or right side of the column. The questions that you have been able to answer on the left side indicate the internal control is in place. Your answers on the right side indicate an internal control weakness. This checklist should give you a good indicator of the number and type of internal controls that might need attention in your operation.

Response Comments can be recorded separately.

GENERAL

Comments:

1. Is governing body aware that establishing and maintaining appropriate internal controls is their responsibility under RSA 41:9, VI?	Y	N	
2. Does municipality management show commitment to establishing and maintaining controls?	Y	N	
3. Do municipality offices have an organizational chart defining the activities and person responsible for them?	Y	N	
4. Are the duties of officials and employees clearly defined in the personnel policy and written job descriptions?	Y	N	
5. Are employee evaluations routinely conducted with corrective action addressed if needed?	Y	N	
6. Does municipality management consistently exhibit high ethical and professional standards in its conduct, setting the standard for the entire organization?	Y	N	
7. Are personnel involved in accounting functions and or revenue and expense collection and disbursement required to take an annual vacation?	Y	N	
8. Are accounting functions performed by other personnel during the vacation of accounting personnel?	Y	N	
9. Is other staff trained in the accounting functions to provide backup in the case of vacation or other absence of the primary bookkeeping employees?	Y	N	
10. Is responsibility for accounting duties ever rotated among staff?	Y	N	
11. Is the municipality in compliance with state statutes covering incompatible offices (RSA 669:7) and segregation of duties?	Y	N	
12. Is a current, accurate and accessible policy and procedures manual in place., including an official code of conduct or an official set of policies governing employee, management and elected official's conduct?	Y	N	
13. Are the policies governing employee conduct communicated in an effective way to all staff and reviewed with them periodically?	Y	N	
14. Is confidential or sensitive material maintained separately from non-confidential records?	Y	N	
15. Is insurance coverage reviewed periodically by qualified individuals to determine adequacy?	Y	N	
16. Does the comprehensive liability policy include liability coverage for all officials and employees and volunteers?	Y	N	
17. Is a budget system, including monthly budget vs actual reporting, used for monitoring income and expenses?	Y	N	

18. Do surety and/or performance bonds cover all officials listed under RSA 41:6 at prescribed levels of coverage (DRA administrative rule Rev 1903)?	Y	N	
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FINANCIAL RECORDS

Comments:

19. Does management regularly review user fees and compare revenue to projections? (e.g. recreation fess vs. # of participant)	Y	N	
20. Are cash projections made and periodically compared by management to the operational accounting information?	Y	N	
21. Are authorizations for all bank accounts and check signers updated annually?	Y	N	
22. Is any single individual able to: a) authorize a transaction, b) record the transaction in the accounting records and c) maintain custody of the assets resulting from the transaction until deposited at the bank?	Y Y Y	N N N	
23. Is an accounting system in use that allows management to record financial transactions, view the data by category, and create timely reports to maintain accountability for the government's assets?	Y	N	
24. Is the chart of accounts use as prescribed by DRA administrative rule Rev 1700?	Y	N	
25. Are detailed cash disbursement journals maintained?	Y	N	
26. Are detailed cash receipts journals maintained?	Y	N	
27. Are all records under the control of the Select Board, Municipality Clerk and Tax Collector reconciled with Treasurer's records monthly?	Y	N	
28. Are the general ledger and its subsidiary ledgers kept up to date and reconciled monthly?	Y	N	
29. Are records properly guarded from fire, theft and manipulation?	Y	N	
30. Is electronic data backed up daily and source documents retained as per file retention policies and mandates??	Y	N	
31. Are all financial recording documents (receipts, purchase orders) sequentially prenumbered, retained, and accounted for, including spoiled or voided forms?	Y	N	
32. Are automatic duplicates of certain forms (receipts & purchase orders) provided to individuals (ex: vendors, taxpayers etc.)?	Y	N	
33. Is the person who does the bank reconciliation authorized to sign checks?	N	Y	
34. Is the bank reconciliation procedure documented?	Y	N	
35. Are bank statements reconciled monthly? - Within 15 Days (best practice)? - Within 30 Days? - Other?	Y Y Y	N N N	
36. Does a responsible official, other than the preparer, review completed bank reconciliations?	Y	N	
37. Is the completed bank reconciliation initialed and dated by both the preparer and the reviewer?	Y	N	

38. Are the following monthly procedures currently performed:		
- Reconcile cash accounts?	Y	N
- Reconcile accounts receivable to the detail invoices?	Y	N
- Reconcile payroll withholdings to the payroll reports?	Y	N
- Reconcile accounts payable subsidiary ledger to actual invoices?	Y	N
- Reconcile property tax receipts to property tax receivables?	Y	N
39. Are all adjusting entries to the financial statements approved in writing by management?	Y	N

CASH RECEIPTS

Comments:

40. Are all monies received by the municipality turned over and deposited within the limits of RSA 41:29 VII? <i>The treasurer shall ensure that all moneys remitted shall be deposited at least on a weekly basis, or daily whenever funds remitted from all departments collectively totals \$1,500 or more. Such deposit function may be delegated pursuant to paragraph VI.</i>	Y	N	
41. Does the treasurer maintain custody of all funds except those held by the trustees of the trust funds, the library trustees or the cemetery trustees, as required by RSA 41:29, I?	Y	N	
42. Is receipt of currency adequately controlled at the point of receipt until deposited or remitted to the treasurer?	Y	N	
43. Is a copy kept of the treasurer's signed and dated endorsement of the tax collector's receipts, payments?	Y	N	
44. Have safeguards been provided to prevent officials or employees from cashing checks payable to the municipality?	Y	N	
45. Does the municipality ever write checks made out to cash?	Y	N	
46. Are monies received by one employee/official, documented and then deposited by another employee /official?	Y	N	
47. Are all receipts remitted to the treasurer in accordance with RSA 41:35 (tax collector) and RSA 261:165 (town clerk)?	Y	N	
48. Does the treasurer keep separate accounts of all money received when prescribed by DRA as per the legislative body authority for the creation of specific accounts?	Y	N	
49. Does the person who handles cash (receipts, bank deposits, purchases) keep the cashbooks and accounting" records?	N	Y	
50. Are funds received over the counter/in person counted by sequentially numbered receipts throughout the organization?	Y	N	
51. Are all funds collected kept in a secure locked area on municipality property until the deposit can be made?	Y	N	
52. Is the petty cash drawer regularly reconciled and documented?	Y	N	
53. Are license, permit issuances and fees reconciled monthly to the cash receipts journal and bank deposits?	Y	N	
54. Is there adequate physical security around cash collection areas?	Y	N	
55. Are there adequate procedures to follow for bounced checks to assess fees in accordance with RSA 80:56?	Y	N	

PURCHASING

Comments:

56. Are purchasing authorizations or purchase orders: - Required for any level of purchases over a dollar threshold? - Signed by a majority of the governing body, department head or management and dated? - Voted upon in a public meeting and recorded in the minutes?	Y	N	
57. Does the treasurer verify, record, and keep a file of all pay orders and manifests approved by the governing body or authorized committee?	Y	N	
58. Are the functions of purchasing of goods, receipt of goods, and cash payments for goods performed by separate employees?	Y	N	
59. Are Checks pre-numbered? - Are unused checks controlled? - Are checks prepared and signed by the same individual? - Are checks ever written to "Cash"? - Are check signature stamps secured and not provided for staff use? - Are voided checks properly accounted for and effectively cancelled?	Y Y N N Y Y	N N Y Y N N	
60. Are there adequate procedures for controlling the receipt of all goods and services purchased, prior to payment? - Are deliveries made to a centralized or secure location on municipality property? - Are packing slips checked and signed? - Are materials and supplies inspected for condition and counted when received?	Y Y Y Y	N N N N	
61. Does invoice processing include a mathematical check for accuracy, terms, extensions and discounts?	Y	N	
62. Are new vendors verified and steps taken to verify the vendor and banking information are trusted businesses?	Y	N	
63. Are procedures in place to avoid duplicate payments?	Y	N	
64. Are there accurate records of all outstanding payables?	Y	N	

CASH DISBURSEMENTS

Comments:

65. Are all cash disbursements, except petty cash items, made by check or ACH? - Are pre-numbered checks used? - Are checks produced on an automated financial system? - Are ACH controls in place for secure transfer?	Y Y Y Y	N N N N	
66. Is petty cash handled through a fixed amount account? - Does petty cash have purchase limits that are reviewed by another individual?	Y Y	N N	

PAYROLL

Comments:

67. Are personnel records (including wages, salaries and deductions) maintained for all employees?	Y	N	
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68. Are salary and wage rates formally approved by the governing body or legislative body?	Y	N	
69. Are methods of accumulating time and recording absences satisfactory?	Y	N	
70. Are payroll deductions properly approved and controlled?	Y	N	
71. Are withholding taxes remitted properly for the correct amounts?	Y	N	
72. If the town clerk is paid in whole or in part by fees, does the town require an invoice or all fees in accordance with RSA 41:25?	Y	N	
73. If any individual is paid in whole or part by fees, are such fees properly remitted and disbursed and federal tax reported?	Y	N	

PROPERTY AND EQUIPMENT

Comments:

74. Are schedules of fixed assets and depreciation maintained?	Y	N	
75. Are periodic inventories taken and compared with the schedules of fixed assets?	Y	N	
76. Is all property and equipment purchased or leased with municipality funds held in the name of the municipality?	Y	N	
77. Are invoices maintained to support the purchase or lease of equipment?	Y	N	

NOTES AND INVESTMENTS

Comments:

78. Are schedules maintained of all borrowing and investing activities in accordance with RSA 33:12 and DRA administrative rule Rev 1906?	Y	N	
79. Is there a written investment policy that is reviewed and adopted annually by the governing body in accordance with RSA 41:9, VII?	Y	N	
80. Does the treasurer invest funds in accordance with the adopted investment policy?	Y	N	
81. Is all investment and transfer activity by the treasurer documented and reconciled?	Y	N	

TAX COLLECTION AND DELINQUENCY

Comments:

82. Surrounding collecting delinquent taxes does the municipality maintain a support schedule showing:			
- The rate or method of calculation for the payment?	Y	N	
- Compliance with Select Board guidelines on these payments?	Y	N	
-Record retention and annual review of tax delinquencies?	Y	N	
83. Is a system used to be certain that all taxable property is included in the warrant?	Y	N	
84. Are newly constructed or remodeled structures updated timely in the tax software?	Y	N	
85. Does the municipality have adequate follow-up policies with delinquent taxpayers?	Y	N	
86. Does someone other than the tax collector (delinquent or current) reconcile taxes?	Y	N	

87. Does the entity maintain adequate records to support that all tax abatement, credits and exemptions have been approved by the governing body?	Y	N	
88. Does the tax collector timely lien and deed property to the municipality in accordance with the procedure in RSA 80?	Y	N	

ENTERPRISE FUNDS Water /Sewer, etc.

(To be evaluated by the Governing Body)

Comments:

89. Do accounting practices for enterprise funds follow guidelines listed above for all other municipality funds?	Y	N	
90. Is the follow-up on delinquent accounts adequate?	Y	N	

The documents listed below are referenced in the checklist. It may be helpful to gather them (if applicable in your municipality) before starting to work on the checklist.

Municipal Policies

- ✓ Financial Reporting
- ✓ Purchasing and Bidding
- ✓ Cash Receipts
- ✓ Fraud Prevention
- ✓ Personnel
- ✓ Delinquent Tax Collection
- ✓ Conflict of Interest

Other Resources

- ❖ Audit Report
- ❖ Accounting Procedures
- ❖ Chart of Accounts
- ❖ Vendor List

