MOSES KOTANE LOCAL MUNICIPALITY

INTERNAL CONTROL

PROCEDURES

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TABLE OF CONTENTS

3. PURCHASING AND CASH DISBURSEMENTS INTERNAL CONTROL PROCEDURES

4. PROPERTY AND EQUIPMENT INTERNAL CONTROL PROCEDURES

5. BUDGET INTERNAL CONTROL PROCEDURES

6. PAYROLL INTERNAL CONTROL PROCEDURES

1. INTRODUCTION

The purpose of this Manual

The purpose of this Internal Control Procedures Manual is to provide the departments with a reference tool to use in establishing and maintaining effective internal controls over the Council's assets and accounting records. The Council's assets are the property of its community and therefore the management of the Council has an obligation to ensure that there is accountability for the use of those assets. In addition, it is management's obligation to provide comprehensive, timely and accurate accounting for those assets.

This manual covers six major areas of internal control procedures:

1. Revenue and Cash Receipts
2. Purchasing and Cash Disbursements
3. Property and Equipment
4. Budget

5. Payroll and Inventories

For departments which have already developed their own internal control procedures manuals for these areas, this manual is not meant to be a replacement of those existing manuals, nor is it to be considered a replacement for any of the Council's existing policies and procedures. Rather, this manual should be used as a supplement to those manuals/policies and procedures and as a resource when additional controls are considered necessary.

The importance of Internal Controls

Internal controls help to provide assurances that the Council's assets are protected from theft, loss or misuse, and that reliable financial information is produced in a timely manner.   Specific internal control objectives that help to achieve these broader goals include the following:

- Proper authorization of all transactions and activities to reduce the possibility that incorrect or fraudulent transactions or activities occur.
- Assigning different people the responsibilities of authorizing transactions, recording transactions and maintaining custody of assets to reduce the opportunity for any individual to both commit and conceal errors or theft of assets.
- Design and use adequate documents and records to help ensure proper recording of transactions and events.
- Adequate safeguards over access to and use of assets and records to reduce the possibility of theft of those assets and concealment of illegal activity.

Establishing good internal control procedures will help minimize potential problems such as theft, fraud and unintentional errors in recording accounting data. However, it is impossible to design a set of controls that will completely eliminate all chances of these problems occurring.   Any control can be overridden or circumvented,

particularly if several employees are colluding to do so. However, by properly implementing internal controls, management will greatly reduce the possibility that such misuse or errors will occur.

Using the Manual

This manual covers six major areas of internal control procedures listed under Section 2 to Section 7 in the table of contents. Each section has been further divided into categories of internal controls associated with particular processes such as collecting and depositing receipts and collecting receipts through the mail. Within each category, specific control procedures are described with an accompanying reason for that control procedure. This structure will enable personnel to access information readily on any given internal control procedure.

Because this manual is a compilation of internal control procedures, not all procedures will apply to each department. In addition, some procedures are just alternate ways of accomplishing the same purpose. Finally, it should be noted that increasing the number of controls does not automatically reduce the risk that problems will occur.

Implementing Internal Control Procedures (A Management Responsibility)

Management within each department is responsible for selecting, implementing and monitoring the internal control procedures that are necessary for its particular circumstances and work environment. In determining which controls to implement, management must first analyse where the areas of greatest potential weakness lie: for example, lack of separation of duties between personnel, uncontrolled petty cash accounts, unlocked safes and cash drawers, lack of passwords on computer programs, and the like. After identifying the potential problem areas, management

must then review and evaluate which internal control procedure(s) will help to compensate for the weaknesses. Each department has its own unique circumstances and it is also important to consider which controls are not practical, for example, for small departments, a complete separation of job duties may not be possible. Finally, managers must also weigh the cost of implementing the control procedures and make sure that the costs do not exceed the benefits expected.

Once the proper control procedures have been selected, it is recommended that management establishes its own written internal control procedures manual or modifies this manual, listing only those procedures that have been implemented. This updated manual should be distributed to all employees who have a responsibility to implement those controls, and they should be made aware of the importance of following the control procedures.

Monitoring Internal Control Procedures

Implementing internal control procedures is of little value in itself if there is no effort to follow up and ensure that the employees are complying with control procedures.   In order to ensure that employees are adhering to prescribed procedures, managers or supervisors should regularly review transactions, cash drawings, petty cash funds and deposits, and property and equipment should be inspected to ensure accountability. It is also important to consider the feedback received from employees – some control procedures may appear to be a good solution to a weakness, but once implemented, unforeseen problems may develop. Other activities may not appear to need internal controls; yet, upon further analysis, some type of control may be warranted.

Staff using the control procedures on a daily basis and equipped with the knowledge of why controls are needed are often in the best position to offer alternative procedures.

This manual should be treated as a "living" document and therefore, from time to time, where new internal control procedures are identified, or where amendments are considered necessary, these must be communicated to departments for the appropriate action.

Should managers have any questions of concerns about whether a particular control is applicable and practical for their departments, the Internal Audit Department of Finance Department should be approached for guidance.

2.   REVENUE AND CASH RECEIPTS INTERNAL CONTROL PROCEDURES

Cash is the asset that has the greatest potential for loss of misuse. Controls over revenue and cash are chiefly concerned with providing assurances that all cash that should have been received was in fact received, was recorded accurately and was deposited promptly.

2.1   Collecting and Depositing Receipts

2.1.1   All cheques should be restrictively endorsed immediately upon receipt by the person receiving the incoming cheques.

Reason for Control

This control reduces the likelihood of theft by reducing the negotiability of the cheques.

2.1.2   Within departments of divisions, centralize the receiving of cash as much as possible.

Reason for Control

This control reduces the number of people with the opportunity to steal cash and centralizes the responsibility of cash.

2.1.3   Deposit all cash receipts intact on a timely basis as required by the Council's Financial Regulations or Code of Finance Practice.

Reason for Control

The longer cash receipts remain undeposited the greater the potential for theft. Undeposited funds are not generating interest income for the Council.   The Council's internal regulations should require that all receipts collected by a department be deposited on or before the next working day.

2.1.4   Keep all cash and cheque receipts locked up prior to making the deposit. If receipts must be kept overnight, place them in a locked safe or other secured area with only one person responsible for the key.

Reason for Control

This control limits access to receipts by unauthorized individuals prior to the cash being deposited.

2.1.5   Current fee schedules should be made available to the public upon request or posted in a public area of each department.

Reason for Control

This provides a check on employees calculating fees by allowing customers to question fees that seem excessive. Making such information readily available to the public makes it more difficult for a dishonest employee to overcharge for fees and then divert the difference.

2.1.6   Encourage customers to obtain receipts for all transactions.

Reason for Control

This helps prevent the cashier from taking cash payments but not recording the sale or recording the sale for a lesser amount. It is recommended that an easily visible notice be placed within the payment area requesting customers to ensure they receive an official and proper receipt.

2.1.7   Person who collect cash or prepare deposits should be independent of employees who record or authorize the transactions.

Reason for Control

This prevents one person from taking cash and altering the records to hide the theft.

2.1.8   Individuals who physically make the deposits by carrying cash to the bank should be adequately protected. If deposits are sizeable, consideration should be given to the use of an armoured vehicle to pick up deposits.

Reason for Control

This control helps to ensure the safety of individuals and deposits.

2.1.9   If an amoured vehicle and a drop safe are used, require both an amoured vehicle employee and a pay point employee must be required to open the safe jointly.

Reason for Control

Requiring the individuals from both outside and inside the Council to be present when opening the drop safe provides an additional control over unauthorized access to the safe's contents.

2.1.10 Always obtain and keep evidence of amounts deposited (i.e. validated deposit slips, bank advices, deposit transmittals etc.) and submit them to the person responsible for bank reconciliation.

Reason for Control

If subsequent bank records disagree with departmental records, this control provides adequate documentation for review and helps verify receipt of the deposit by the bank.

2.1.11 Prohibit employees or customers from cashing personal or any other third party cheques out of cash collections.

Reason for Control

This control helps prevent employees from taking cash and covering the discrepancy with a personal cheque. It also reduces the risk of non-collection on bad cheques. Council policy must prohibit employees from cashing such cheques with Council funds.

2.1.12 Do not accept post-dated cheques in the ordinary course of business.

Reason for Control

Post-dated cheques can create collection problems if they are submitted to the bank in advance of the cheque date. The department should submit all cash receipts for each day to the bank and not have to hold and keep track of post-dated cheques.

2.1.13 Never accept cheques written for an amount greater than the fee due.

Reason for Control

Cheques written for an amount greater that the fee charged can also result in collection problems if the cheque is not honoured.

2.1.14 All cancellations, refunds and other adjustments to fees should be approved by an authorized person.

Reason for Control

This control helps prevent unauthorized refunds and also prevents personnel from recording false refunds to cover the theft of cash.

2.1.15 Keep copies of all deposit transmittals and deposit slips prepared and submitted to the Finance Department.

Reason for Control

This will ensure that supporting documentation is available to review for potential errors or irregularities.

2.1.16 Clearly identify the authority and responsibilities required of each financially related job position (i.e. cash collections and reconciling of reports).

Reason for Control

It is important to identify clearly the authority and responsibilities of each financially related job position to help prevent a breakdown in the separation of job

duties and to ensure that employees are not performing duties and processing transactions without proper authority to do so.

2.1.17 Cross-train employees to perform other financial tasks and require these employees to rotate job duties periodically.

Reason for Control

This control helps to ensure that vital financial job tasks can be performed in a timely manner. Requiring employees to rotate job duties periodically prevents an employee form concealing errors and thefts for prolonged period of time.

2.2   Collecting Receipts through the Mail

2.2.1   Billing forms and statements mailed to customers should include a section that is to be returned with payment.

Reason for Control

This control will help to identify the party making the payment and ensure that the correct customer account is credited for the payment.

2.2.2   When designing billing forms and statements, the portion to be returned with payment by the customers should include a section in which the customer is encouraged to indicate the amount being paid. These amounts should be reconciled daily to the actual receipts.

Reason for Control

When the customer fills in the amount being paid in ink, it is more difficult for a person receiving the payment to alter the returned potion of the billing form to cover up the theft of cash receipts. Without this control, the person receiving payment could credit the customer's account for an amount less than the amount received and take the difference out of cash receipts.

2.2.3 Incoming mail should be opened and receipts listed by a person having no access to the actual recording of cash receipts or accounts receivable. If possible, this person should not have other cash handling or revenue recording duties.

Reason for Control

Separating these functions provides verification that all mail receipts are subsequently recorded and posted to the proper accounts.

2.2.4 The person opening the incoming mail should restrictively endorse all cheques received immediately upon receipt.

Reason for Control

This control reduces the likelihood of theft by reducing the negotiability of the cheques.

2.3 Recording Revenues

2.3.1 When receipts are filled in by hand or typed, all receipts forms should be pre-numbered and issued in numerical sequence. Someone in each department should be assigned to account independently for the numerical control of these forms.

Reason for Control

When reviewing receipt numbers recorded, a missing receipt could indicate that a transaction has not been recorded, or the funds have been stolen and the receipt destroyed to hide the theft.

2.3.2   All receipt forms should be kept in a secured area not readily accessible to the public and unauthorized employees.

Reason for Control

By controlling access to receipt forms, the possibility of unauthorized persons obtaining receipts is reduced.

2.3.3   Assign individual passwords to log onto the computer system to record transactions.

Reason for Control

This control assists in reconciling any differences and determining whether there are consistent errors by a single employee.   It also reduces the likelihood of unauthorized access to information.

2.3.4   Restrict access to computer terminals so that the public and unauthorized employees do not have direct access to them.

Reason for Control

It is important to restrict access to data entry points to those individual employees who are responsible for recording transactions.

2.3.5   Each department should reconcile, on a regular basis, all receipts processed onto the revenue system to actual receipts deposited for the same period.

Reason for Control

It is important that each department verify that its revenue amounts have been properly recorded.

2.4   Controlling Floats

2.4.1   When change is needed by cashiers, it should be requested from a department supervisor and obtained from the safe.

Reason for Control

This control will help to prevent confusion and protect each cashier from missing funds.

2.4.2   The issued of floats should be recorded on a log sheet and double-counted and the log should be signed off by both the supervisor and the cashier.

Reason for Control

Requiring double-counting and dual sign-offs for all change transactions helps to prevent over-charges and shortages.

2.4.3   Change should not be made from the petty cash.

Reason for Control

It is important not to commingle the monies in the petty cash fund with other receipts, as this can lead to loss of control over the petty cash funds.

2.4.4   Change should not be made by taking monies from other cash drawers.

Reason for Control

This control will help to prevent confusion and unintentional errors which can occur when trading monies between drawers. Each cashier should be accountable for his or her cash drawer balances, and making change from other cash drawers makes it more difficult to assign responsibility if overcharges or shortages occur.

2.4.5 A designated person should perform random, unannounced counts of the floats to ensure that the balance of the float is correct and properly accounted for.

Reason for Control

Just knowing that surprise counts may occur at any time can help to discourage employees from "borrowing" from the float.

2.5 Limiting Access to Cash – Office Safes, Drop Safes and Lock Boxes

2.5.1 Access to the keys and/or combinations for the office safes, lock boxes and deposit bags should be restricted to specific, designated personnel. Keys should be maintained in a safe, locked place.

Reason for Control

To prevent the theft of cash and other items maintained in the safe, it is important to limit access to such areas. Leaving keys or safe combinations on top of counters or desks defeats the purpose of having safes, lock boxes and cash drawers.

2.5.2 Departments should change office safe combinations and locks periodically especially when personnel leave employment.

Reason for Control

Changing locks and combinations periodically helps to compensate when control over access to keys or combinations have been lax. This control becomes even more important when personnel who have access to keys and combinations terminate their employment with the department.

2.5.3   All office safes should be kept locked throughout the day.

Reason for Control

Keeping safes unlocked throughout the day for purposes of convenience also allows unauthorized personnel access to the cash. Safes should be opened only when necessary.

2.5.4   Smaller office safes and drop safes should be bolted to the floor or a wall.
Reason for Control

Smaller office safes could be carried off if not bolted to the floor or wall. If not secured, smaller drop safes could be turned over and the deposits removed through the drop slot.

2.6   Limiting Access to Cash – Cash Drawers/Cash Registers

2.6.1   Cash drawers/registers should be locked when personnel responsible for the drawer leaves the area and the key should be left with a designated person. Only one person should be responsible for the cash register. Should there be a need to alternate cashiers during the day; proper hand-over procedures (including cash counts) should be applied.

Reason for Control

To help prevent theft of cash, it is important that cash drawers/registers never be unlocked when unattended. Proper hand-over procedures reduce the risk of theft and ensure accountability.

2.7   Limiting Access to Cash – Alarm Systems

2.7.1   Alarm systems on safes, offices or other secured areas should be tested periodically to ensure that they are functioning properly.

Reason for Control

Alarm systems may be an effective control, particularly if large amounts of cash are routinely collected and must be left on in the department when employees are not present. However, it is important that systems be tested on a routine basis to determine that they are operating as expected.

2.7.2   Access to security codes used to disarm the alarm system should be given to only a few designated employees and a proper record should be kept of who has official access to such codes.

Reason for Control

Restricting the knowledge of security codes to only those individuals who need to know will help prevent unauthorized employees from turning systems off and gaining access to secured areas.

2.7.3   Security codes used to disarm the alarm system should be changed periodically, especially when an employee terminates employment with the department.

Reason for Control

Over time, security codes may become widely known throughout the department. Therefore, it is important to change codes periodically to prevent unauthorized personnel from gaining access to the secured area. This control becomes even more important when an employee with knowledge of the security codes terminates employment.

2.8   Using Cash Registers

2.8.1   Use electronic cash registers, when possible, which record all revenue transactions.

Reason for Control

Use of electronic registers increases the supporting documentation to provide for review of collections for potential errors and losses and reduces the likelihood of theft.

2.8.2   A designated person, other than the cashiers, should run the daily "Z" total listing at the end of the day and should reconcile register totals to the cash receipts to be deposited. If cash is received after the daily deposit and prior to the end of the day, an "X" total listing showing the total of collections made since the deposit should be prepared by a supervisor. (This listing includes period-to-date receipts and does not close out the cash register). The employee should reconcile the amount of collections they have in the register to the "X" total listing and then place the reconciliation and the collections in the safe. The next day, employees should verify the reconciliation of the previous day's collection prior to placing the funds in the cash register for the current day.

Reason for Control

This control provides for an end-of-day reconciliation of cash receipts. Any errors detected can be resolved immediately by the cashier responsible instead of waiting until the next day.

2.8.3   When cash registers are used, subtotals for different transaction types, as well as the grand total on the cash register tape, should be reconciled to printed computer reports or handwritten control sheets, if any. These totals can also be used to record fees.

Reason for Control

This helps ensure that all revenue is recorded properly.

2.8.4   Any manual changes to cash register tapes, such as when transactions need to be overridden or voided, should be sufficiently documented and approved by authorized individuals.

Reason for Control

This control is needed to ensure that register control totals cannot be easily overridden or altered.

2.8.5   If possible, locate cash registers where customers can observe the register display.

Reason for Control

This helps prevent the cashier from taking cash payments but not ringing up the sale, or ringing up the sale for lesser amount, charging the customer more than the amount rung up, and taking the difference.

2.8.6   Require cashiers to provide customers with a cash register receipt.

Reason for Control

Once again, this helps provide an assurance that the cashier is ringing up the sale for the full amount, as customers will complain if they notice discrepancies between what they paid and what was on the receipt.

2.9   Analysing and Reconciling Revenues

2.9.1   Evidence of amounts deposited (i.e. validated deposit slips, bank advices, deposit transmittals etc.) should be submitted to the person responsible for reconciling the department's revenues.

Reason for Control

If subsequent reports disagree with departmental records, the control provides adequate documentation for review and helps verify receipt and timeous deposit of cash.

2.9.2   Whenever a department utilizes computers to calculate revenues due to the Council, personnel should from time to time manually recalculate the fees calculated by the software program for a few billings chosen at random.

Reason for Control

Because computer software programs can develop calculation errors, it is important to recalculate manually a few randomly selected billings on a regular basis to help ensure that the program is functioning as expected.

2.9.3   Perform simple revenue testing on each deposit made by calculating the ratio of cheques versus cash in relation to the total deposit.

Reason for Control

When performing this type of testing on a daily basis, a fairly stable ratio of cheques to cash will usually develop over a period of time. If there is a significant decrease in the cash portion of the deposit over a prolonged period of time, it may be an indication that cash funds are being stolen by an employee.

2.10   Reconciling Bank Accounts

2.10.1   Monthly bank reconciliations of all departmental accounts should be prepared by an employee who does not have cheque-writing or deposit responsibilities.

Reason for Control

Separating these job functions will reduce the ability of one employee to take cash and also alter records to prevent detection.

2.1.0.2 Reconciliations should include comparison of dates and amounts of deposits as shown on the bank statements with original cash receipts documentation.

Reason for Control

Deposits shown on bank statements should be compared with the department's original cash receipts documentation to ensure that all cash receipts have been

deposited in a timely manner and that the bank has credited the correct amounts to the account.

2.10.3 Bank statements should be opened by a designated employee other than the person who prepares the bank reconciliation. The statement should be reviewed by the designated employee to determine whether the transactions shown appear reasonable prior to forwarding the statement to the person responsible for the bank reconciliation.

Reason for Control

In departments where staff size is insufficient to separate the cash collection, recording and reconciliation duties, the control helps prevent employees who prepare the bank reconciliation from hiding theft by altering the original bank statement to conceal suspicious transactions of balances.

2.10.4 All cancelled cheques returned with the bank statement should be scanned by someone other than the person preparing the bank reconciliation to verify that the payees and the amounts on the cheques appear correct and have not been modified.

Reason for Control

Once again, this provides some control when department staff size is insufficient to separate financial job duties. Because cheques can be altered by employees after signatures are obtained, quickly scanning cheques may help detect improper payees of altered amounts, as well as unauthorized signatures. Banks do not routinely scrutinize cheques for such irregularities unless they are for very large amounts.

2.10.5 Whenever possible, departments should request that the bank returns all cancelled cheques with the monthly bank statement.

Reason for Control

Bank statements show only the amount of cheques written on the account but do not provide evidence of whom or what the cheques was written for. Having the original cancelled cheques returned with the statement provides important transaction documentation which can be properly audited if problems arise.

2.10.6 All bank reconciliations should be reviewed and approved by the appropriate supervisor.

Reason for Control

This control will help supervisors verify that the reconciliations are properly completed in a timely manner, and it is particularly important in departments where it is not feasible to separate the cash handling, recording and reconciliation duties.

2.10.7 Always obtain and keep evidence of amounts deposited (i.e. validated deposit slips, bank advices, deposit transmittals etc.) and submit them to the person responsible for the department's bank reconciliation.

Reason for Control

If subsequent bank records disagree with departmental records, this control provides adequate documentation for review and helps verify receipt of the deposit by the bank.

2.10.8 Ensure that all disputed items, unidentified receipts, non-sufficient fund cheques and bank charge-backs are properly handled and recorded by personnel responsible for the department's bank reconciliation, for follow-up.

Reason for Control

Unusual items should be properly accounted for and investigated in a timely manner. If the bank has made an error in charging the amount, it will correct such errors only if detected within a limited time period. Non-sufficient fund cheques should be followed up quickly – the longer such cheques are outstanding, the likely it is that they will ever be collected.

2.11   Collecting Delinquent Fees

2.11.1 In each department, a designated person should be assigned responsibility for tracking any outstanding amounts due to Council for unpaid licenses, fees, fines or returned cheques.

Reason for Control

Assigning to a particular person the responsibility for tracking outstanding amounts increases the assurance of timely recognition of past due items and reduces the chance that such items will remain unresolved.

2.11.2 Letters requesting payment should be sent to the delinquent party on a timely basis and a copy of all letters, or a control log of these letters including the dates letters were sent, should be maintained on file for future references.

Reason for Control

Timely follow-up on past due items is important, as the longer an item is uncollected, the less the chance is that it will ever be paid.

2.11.3 Where possible, computer software should be utilised to track past-due amounts.

Reason for Control

When large quantities of fees or licenses are routinely processed, computer software programs may be helpful in alerting departments to past-due items and tracking the follow-up efforts on these items.

2.12. Monitoring Fee Schedules

2.12.1 Fees charged should be in accordance with the most current fee schedules as approved by the Council.

Reason for Control

To ensure that the fees charged and collected by a department agree with the amount chargeable as approved by Council, fee schedules should be reviewed on a regular basis and updated when necessary.

2.12.2 Each person responsible for charging the fees should be provided with the most current fee schedule, and a designated person should periodically review the fees being charged to verify that they agree with the most current fees approved.

Reason for Control

To avoid confusion over the proper amount of fees or taxes chargeable, it is important that all employees responsible for calculating and collecting fees be provided with new fee schedules whenever these are changed.

2.12.3 Computer software programs that calculate fees or taxes due should also be reviewed periodically to ensure that they are in agreement with the most current fee schedules.

Reason for Control

It is important for departments utilizing software programs which calculate their fees or taxes to ensure that those software programs are updated whenever fee schedules change.

2.12.4 Current fee schedules should be posted in a public area of each department or should always be available to the public upon request.

Reason for Control

Making such information readily available to the public makes it more difficult for a dishonest employee to overcharge customers for fees and then divert the difference.

3. PURCHASING AND CASH DISBURSEMENTS INTERNAL CONTROL PROCEDURES

This area includes procurement policies and procedures related to the determination of needs, authorization for purchase and receipt of goods by each department. It does not necessarily include the procedures performed within the Expenditure and Stores Divisions of the Council. The cash disbursement process includes the authorization of payment for goods or services received and the proper coding of transactions for account distribution. The handling of petty cash is also addressed. This area includes follow-ups by each department to ensure that expenses are charged to the appropriate department.

3.1 Processing Purchase Requisitions

3.1.1 Responsibility for purchase requisition approval should be separate from that for purchase requisition preparation, recording and receiving functions.

Reason for Control

This reduces the ability of one person to initiate a purchase, approve the transaction and process and record the payment without anyone else reviewing it.

3.1.2   Departmental personnel should include on all purchase requisitions the applicable general ledger account code for each purchase.

Reason for Control

When preparing purchase requisitions, it is important to ensure that purchases are coded to the proper accounts to avoid exceeding budget provisions.

3.1.3   Purchases should never be "split" in an attempt to avoid the approval required for larger purchases by the appropriate levels of authority.

Reason for Control

Splitting purchase requisitions to bypass proper authorizations undermines the Council's obligation to be fiscally prudent with the public's funds and may be a direct violation of the Council's legal obligations in regard to tendering.

3.1.4   Use multiple copies, pre-numbered purchase requisitions, and designate someone in the department to control the use of the forms. This person should account for the numerical sequence of all forms on a regular basis.

Reason for Control

The use of pre-numbered forms makes it possible for each purchase requisition to be tracked and accounted for, and reduces the possibility that duplicate or unauthorized purchase requisitions are incorrectly processed. Forms missing from the sequence may indicate that unauthorized purchases are being made.

3.1.5 For special purpose materials (i.e. items other than standard supplies) or personal services, the department should provide detailed, technical specifications along with the purchase requisitions.

Reason for Control

To ensure that the desired item is ordered with minimal delay, purchasing specifications for special items should be as detailed as possible.

3.1.6 Purchase requisitions should be signed and approved by a designated departmental employee who is also responsible for determining that the expenditure is within budget or funding source restrictions. This person should also review the account coding on the purchase requisition to ensure that it will be properly recorded.

Reason for Control

This control helps ensure that all purchases are properly approved at the commencement of a transaction and to verify that the appropriate funds are available.

3.1.7 An employee should be assigned responsibility for reviewing all purchase orders generated by the Expenditure and Stores Divisions to ensure that the prices, quantities and specifications of the items being ordered agree with the department's purchase requisitions. The Expenditure and Stores Divisions should be notified immediately if errors are found.

Reason for Control

Once the purchase orders are forwarded to vendors, they become binding agreements between the vendor and the Council, and the Council may have to honour incorrect terms and conditions that were entered by mistake.

3.1.8   It is important to keep track of purchase requisitions submitted to the Expenditure and Stores Divisions. This can be accomplished by retaining a file with copies of open purchase requisitions, a log of the open purchase requisitions, or some other system which will allow departmental personnel to determine the rand amounts of such items.

Reason for Control

Because of possible time delays in processing purchase requisitions, it may be necessary for each department to maintain its own system to track items ordered, and to determine accurately the amount of funds which have been appropriated and committed for these purchases, prior to the information being recorded in the Council's accounting system. This becomes increasingly critical toward the end of the financial year.

3.2   Receiving Goods from a Vendor

3.2.1   Designate a departmental employee to receive goods and sign copies of the purchase orders authorizing the payment of goods or services received. Whenever possible, the receiving employee should be different from the employee who initiates the purchase requisition.

Reason for control

Providing adequate segregation of duties helps ensure that no one person has complete control over a transaction, thus making unauthorized purchases more difficult to conceal.

3.2.2   The employee accepting goods should inspect and count goods when received. The counts should agree with the purchase requisition and purchase order prior to approving payment.

Reason for Control

To reduce the potential risk of accepting and paying for unordered merchandise, for damaged goods or for goods never received, it is important for departments to verify all orders upon receipt and prior to approving payment.

3.2.3   When reviewing goods received, the vendor and the Expenditure and Stores Divisions should be notified of discrepancies in quantities or types of items ordered, or of damaged goods, as soon as possible.

Reason for Control

It is important to follow up on orders when the items received are damaged or do not meet the required specifications. Inferior goods should be returned in a timely manner to prevent the Council from paying for damaged or otherwise unusable items which have been shipped by vendors.

3.2.4   When verifying the receipt of goods, always compare the quantity received with the quantity on the purchase order or purchase requisition, not the quantity shown on the packing slip or bill of lading.

Reason for Control

The bill o lading or packing slip will show only the quantity that was shipped, which is not always the same quantity that was requested on the purchase order.

3.3   Approving Invoices for Payment

3.3.1   After verifying the condition of goods received from a vendor, the invoice should be approved for payment by a designated employee who has no other purchasing responsibilities.

Reason for Control

Wherever possible, segregation of duties reduces the ability of one person to initiate a purchase, approve the transaction, and process and record the payment without anyone else reviewing it.

3.2.2   After approving the invoice for payment, forward the appropriate signed copies of the invoice to the Finance Department/Expenditure and Stores Divisions in a timely manner. Only the original copy should be forwarded. Photocopies should never be routed.

Reason for Control

It is important to notify the applicable departments that goods have been received and accepted, so that records can be updated and vendors paid on a timely basis.

3.3.3   Maintain a copy or log of invoices authorized for payment prior to submitting them to the Finance Department. This information should be used to reconcile the monthly budget to actual reports received. An authorized individual should reconcile the reports to the detail on a timely basis.

<u>Reason for Control</u>

This will ensure that expenses for the individual department have been properly accounted for and will enable the department to make purchasing decisions based on the available funds in the budget.

3.4   <u>Paying Invoices</u>

3.4.1   When paying invoices directly out of departmental bank accounts, all original invoices should be date stamped when received and stamped or otherwise marked "paid" upon payment.

<u>Reason for Control</u>

These controls help to prevent inadvertently paying the same invoice more than once and provide supporting documentation should payment be disputed.

3.4.2   Destroy or stamp "duplicate" on duplicate copies of invoices to indicate that they are not the original invoice.

<u>Reason for Control</u>

This control reduces the likelihood that duplicate copies of invoices will be mistaken for an original invoice and paid twice.

3.4.3   Assign an employee to approve all invoices for payment and review account coding for accuracy.

<u>Reason for Control</u>

This helps to provide that only appropriate invoices for goods and services received are approved for payment, prevents unauthorized payments and ensures that expenditures are coded to the proper accounts.

3.4.4 Vendor invoices should be recalculated for mathematical accuracy and verified for the reasonableness of prices prior to approving the invoices for payment. Clearly document on the face of the invoice the performance of recalculation and comparison to the purchase order and receiving documents.

Reason for Control

These controls will help to detect calculation errors and prevent overpayment. Documentation of recalculation and comparison is important should the payments later be disputed and to ensure that control policies are being followed properly.

3.4.5 Upon receiving invoices, a designated employee should check invoice terms and discounts. The department should establish a written policy on taking early payment discounts.
Reason for Control

Taking early payment discounts can result in substantial cost savings to the department. If the department establishes this policy, the person reviewing the invoice prior to payment should also ensure that discounts are taken when appropriate and overpayments prevented.

3.5   Controlling Cheque Accounts

3.5.1 Responsibility for cheque disbursement approval should be separate from that of other purchasing functions whenever possible.

Reason for Control

This reduces the ability of one person to initiate a purchase, approve the transaction and process and record the payment without any other employees reviewing the transaction.

3.5.2   Keep blank cheques locked up at all times and assign the responsibility for controlling the blank cheques to a designated employee.

Reason for Control

It is important to safeguard blank cheques to prevent their misuse.

3.5.3   Whenever cheques are voided, personnel should tear off the signature section of the cheque or write "void" across the face of the cheque in ink.

Reason for Control

To prevent alternate use of the cheque it is important to deface all voided cheques.

3.5.4   Always retain original voided cheques in a secured location, and never destroy or dispose f voided cheques.

Reason for Control

Control must be maintained over the voided cheques to provide documentation of the void transaction. Cheques should never be thrown away after they are voided, as it would be difficult to tell whether missing cheques were actually voided or had been stolen to be misused in the future.

3.5.5   Use pre-numbered cheques in sequence.

Reason for Control

Pre-numbered cheques should always be used in sequence to ensure that all cheques are properly accounted for.

3.5.6   Have the name of the Council (and where applicable of the department, including the description of the type of funds that are being held in the account) preprinted on all checques.

Reason for Control

To help prevent cheques being used for unauthorized purposes, it is important that such information be pre-printed on cheques and be difficult to alter.

3.5.7   Cheque preparation should be performed by an individual independent from the individual who approves vouchers or invoices.

Reason for Control

Again, it is an important control to ensure that no one person has complete control over a transaction from beginning to end.

3.5.8   Always make cheques payable to specific payees, never to "cash", "petty cash" or "bearer"

Reason for Control

Making cheques payable only to specific payees helps to restrict a cheque's negotiability and to prevent payment to unauthorized individuals.

3.5.9   If practical, use a cheque protector to imprint amounts on cheques.

Reason for Control

Using a cheque protector makes altering the amount on the cheque more difficult.

3.5.10 If possible, the custody of cheques after signatures are obtained but before being mailed should be assigned to an employee independent of all disbursing, cash-handling, receiving and accounting functions. This employee should mail the cheque to the payees.

Reason for Control

This control helps to prevent an employee with access to cash or accounting records from altering the amounts or names on cheques after they have been signed, and then altering records to cover the fraud.

3.5.11 Whenever possible, the department should request that all cancelled cheques be returned by the bank with the monthly bank statement.
Reason for Control

Having cancelled cheques returned with the bank statement provides the best documentation regarding the completion of the cash disbursement transaction cycle.

3.5.12 The person responsible for bank reconciliations should scan all cancelled cheques to ensure that there are no suspicious endorsements and that no cheque amounts or payees were altered. That person should also account for the numerical sequences of all cancelled, voided and outstanding cheques.

Reason for Control

This control helps to verify that all cheques were paid to the proper party and that none is missing.

3.6   Signing Cheques

3.6.1   Restrict the number of authorized signers on bank accounts to as few as practical.

Reason for Control

To reduce the access to cash funds it is important to limit authorized signers on accounts to as few as practical.

3.6.2   When deciding on whom to authorizes as signers for a cheque account, consideration should be given to the availability of individuals should the need arise for a cheque to be written immediately.

Reason for Control

If authorized signers are seldom in the office, processing a cheque in a timely manner may be difficult. Individuals who are generally in the office during business hours should be given greater consideration than those who are not readily available, even if the former individuals are lower in seniority.

3.6.3   Require two authorized signatures on all cheques.

Reason for Control

To limit access to cash funds and prevent the ability of one person to disburse cash without someone else's review of the transaction, it is essential that all cheques require two signatures.

3.6.4   If feasible, cheque signers should be independent from individuals who prepare vouchers and approve them for payment, prepare and record cheques, receive cash, handle petty cash, or handle purchasing or receiving of goods.

Reason for Control

Adequate segregation of duties helps prevent one person from falsifying purchasing and receiving information and also preparing a payment for the misuse of funds.

3.6.5   Whenever possible, authorized signers should not sign cheques on which they are also payees.

Reason for Control

Even though transactions are legitimate, it is a good policy not to allow personnel to sign cheques on which they are also the payee to ensure that there is adequate review of the transaction by independent employees.

3.6.6   Never "pre-sign" cheques before they have been fully completed.

Reason for Control

Pre-signed cheques are the equivalent of cash and can easily be used for unauthorized disbursements. If authorized signers are not readily available to sign cheques, consideration should be given to appointing new authorized signers.

3.6.7   Provide cheque signers with invoices and purchase orders to review when signing cheques.

Reason for Control

Cheque signers should review all disbursements and investigate any unusual items prior to signing cheques.

3.6.8   Notify the bank immediately when cheque signers leave employment in the department or are otherwise no longer authorized to sign cheques and new signers take their place.

Reason for Control

Relaying this information in a timely manner may help to prevent confusion and the unauthorized signing of cheques.

3.6.9   If cheque signing machines are utilized, the facsimile signature plates should be kept locked up in the safe or other location and used only in the presence of its custodian.

Reason for Control

Special care needs to be taken to control access to facsimile signature plates to prevent the disbursement of an unauthorized cheque.

3.6.10 The department should set maximum limits on amounts that can be paid by facsimile signature on cheques.

Reason for Control

This control helps ensure that any larger disbursements will be properly reviewed by actual cheque signers.

3.7   Electronic Payments

Section 3.6 also applies to electronic payments. Special care should be taken by the officials responsible for the approval of electronic payments to protect their personal identity codes. (PIN'S).
A daily report of electronic payments must be submitted to the Manager Finance and the internal audit section.

Reason for Control

This control ensure that any electronic disbursements be properly reviewed on a daily basis.

3.8   Controlling Petty Cash Funds

3.8.1   Petty Cash should be maintained in a locked, secure location at all times.

Reason for Control

Restricting access to cash is the best way to protect the cash from theft.

3.8.2   Responsibility for custody of each petty cash fund should be assigned to only one or two employees in the department.   As petty cash custodians, these employees should handle all petty cash transactions.

Reason for Control

The more the individuals who have access to the department's petty cash fund, the easier it is for theft to occur and the more difficult is it to ensure that all receipts and vouchers are properly accounted for.

3.8.3   Petty cash funds should always be kept separate from other cash.

Reason for Control

Intermingling petty cash funds with other cash funds can make errors, whether intentional or not, more difficult to detect.

3.8.4   The petty cash fund should never be used to make change for employees, customers or for other cash funds.

Reason for Control

This procedure allows for easier identification and reconciliation of the petty cash funds.

3.8.5   A maximum amount for individual disbursements from the petty cash fund should be established by the Finance Department and adhered to.

Reason for Control

This procedure discourages the use of the department's petty cash to circumvent the normal purchasing procedures for purchases larger than nominal accounts.

3.8.6   Whenever practical, special purchase orders rather than the petty cash fund should be used for small purchases.

Reason for Control

Using special purchases order or blanket purchase orders reduces access to cash.

3.8.7   Petty cash vouchers should be properly completed and approved prior to making any disbursements from petty cash.

Reason for Control

This procedure provides for adequate documentation and approval of petty cash disbursements.

3.8.8   Petty cash vouchers should be approved by a designated employee. Petty cash vouchers should never be approved by the custodian of the fund.

Reason for Control

Requiring and individual other than the petty cash custodian to review and approve vouchers provides an important check on the petty cash disbursement process and makes misuse of the funds more difficult.

3.8.9   Reimbursement vouchers should be filled out and signed in ink.

Reason for Control

This procedure makes it more difficult to alter petty cash vouchers after they have been approved by authorized personnel.

3.8.10 Never disburse petty cash unless petty cash vouchers are accompanied by proper, original receipts for expenses.

Reason for Control

This procedure provides proof of the actual purchase.

3.8.11 The petty cash fund should be reviewed periodically to determine whether any of the receipts in the fund are non-current or unusual.

Reason for Control

This procedure may help to prevent the concealment of invalid or unauthorized disbursements. Non-current or unusual receipts should be thoroughly reviewed.

3.8.12 The fund should be reconciled on a regular basis by someone other than the petty cash custodian.

Reason for Control

Having an employee who does not have custody of the petty cash independently reconcile the fund provides an independent check on the petty cash custodian.

3.8.13 Before the petty cash fund is reimbursed for expense receipts, an adequate review of the imbursement vouchers should be made.

Reason for Control

This process provides assurance that all disbursements were properly approved and found reasonable prior to reimbursement.

3.8.14 Cheques to replenish the petty cash fund should be made out to the order of the petty cash custodian and not to "cash" or "petty cash".

Reason for Control

This control helps ensure the receipt of the funds only by the petty cash custodian and makes the petty cash custodian responsible for the replenishment of the fund.

3.8.15 Reimbursement vouchers and attached receipts should be cancelled immediately after the issuance of petty cash.

Reason for Control

When reimbursement vouchers or receipts remain in the petty cash fund for weeks or months, a concern arises that uncancelled vouchers or receipts can be taken from the fund and reused. Canceling the original documents will help to prevent this from occurring.

4.   PROPERTY AND EQUIPMENT INTERNAL CONTROL PROCEDURES

Losses from uncontrolled methods of acquiring, maintaining and disposing of redundant property and equipment are often greater than the losses from fraud in cash handling. If controls over the acquisition of assets are not in place, employees can purchase assets for personal use. If assets are not adequately maintained, costly repairs or replacements may be required. If assets are disposed of without proper controls, valuable items can be stolen and the theft hidden by falsifying disposal

records. The principal purpose of internal control policies and procedures relating to property and equipment is to obtain the maximum efficiency from the rand invested in these assets. To accomplish this information must be available to allow the identification of the assets on hand, determine their condition and plan for their timeous replacement.

4.1   Acquiring Property and Equipment

4.1.1   All capital purchases should require advance written approval by authorized personnel and should be included in the department's capital budget.

Reason for Control

Requiring advance approval reduces the likelihood that an unauthorized employee could order and steal equipment. It also ensures that management is kept aware of purchases affecting capital budgets.

4.1.2   The number of employees authorized to approve capital purchases should be limited to as few as possible.

Reason for Control

Limiting the number of employees who have the authority to approve capital purchase reduces the opportunities to make unauthorized purchases.

4.1.3   Capital budgets should be compared with actual expenditures on a monthly basis and significant differences should be analysed in a timely manner.

Reason for Control

Comparing the budget with actual expenses can help to detect misuse of funds and miscoding of purchases.

4.1.4 All purchases of property and equipment should be handled through the Expenditure and Store Divisions and be subjected to the standard routines for tendering, receiving, inspection and payment.

Reason for Control

If an employee in an ordering department can bypass the segregation of the purchasing, receiving and accounts payable functions, the employee can more easily alter records and steal the equipment. If the tendering process is bypassed, an employee can order capital assets at inflated prices and receive kickbacks from equipment vendors. Again, the guiding principle is that the more people involved in a transaction, the less likely that fraud or theft of assets will go undetected.

4.2 Identifying and Labeling Property and Equipment

4.2.1 Detailed listings of the department's property and equipment should be reviewed and updated for any additions or deletions in a timely manner.

Reason for Control

Detailed listings are of little value when they fail to include current additions and deletions. A great deal of time can be wasted searching for assets which have been disposed of but were never deleted from the asset list. New additions which are never recorded on the listing are easier to steal.

4.2.2 If possible, inventory listings should indicate the location of each asset and, if feasible le, assign responsibility for the asset to a particular employee.

Reason for Control

Documenting the location of each asset and assigning responsibility for the asset to a specific employee makes verification of the assets existence and condition easier. Employees are more likely to keep track of assets when they know they will be held accountable for them.

4.2.3 Each physical asset should be marked with a unique identification number and labeled with the bar code identification labels issued by the Finance Department immediately upon receipt.

Reason for Control

When as asset is placed in service prior to being labeled with the appropriate bar codes and unique identification numbers, the chances that the asset will be "lost" in the system greatly increase, particularly if there are already other similar assets being used. Unlabeled assets have a greater likelihood of never being properly recorded on the inventory listing and are also more susceptible to theft.

4.2.4 If it is not practical to place a label on the item because of its size or purpose, such as a gun or pager, a log of such items should be maintained by the department and the label should be affixed to the log.

Reason for Control

This Control will make it easier to identify assets during annual inventories.

4.3 Limiting Access to Property and Equipment

4.3.1 If practical, smaller, high rand value assets deemed to be sensitive to loss or theft should be assigned to specific individuals, or stored in locked cabinets or

storerooms, with access limited to only a few key employees. A "check-out" system can be established for such assets by assigning an employee to act as equipment custodian and requiring employees to sign out for the items they need.

Reason for Control

Unlimited access to such assets increases the potential for theft. Smaller assets are especially vulnerable, as they can be concealed in an employee's personal belongings and easily removed from the job site. A "check-out" system makes employees accountable for the equipment they use and allows the equipment custodian to follow up on assets which have been removed for excessive lengths of time.

4.4   Conducting inventories of Property and Equipment

4.4.1   When performing regular physical inspections of property and equipment to determine that all items are properly accounted for, any differences should be investigated in a timely manner.

Reason for Control

If thorough physical inspections of assets are not conducted on a regular basis, it is difficult to detect the theft of assets timeouly. An accurate, detailed knowledge of the kinds, quantities and conditions of existing equipment is also necessary for an informed forecast of the need to budget for replacements and additions of capital assets, and this information can often be obtained through physical inspections.

4.4.2   A complete physical inventory of the department's property and equipment must be conducted whenever there is a change in the departmental head. Both the incoming and outgoing departmental heads must sign the report.

<u>Reason for Control</u>

This procedure facilitates the transfer of responsibility for safeguarding the Council's assets between the outgoing and incoming heads of the department.

4.5   <u>Disposal of Redundant Property and Equipment</u>

4.5.1   All disposal of assets should be properly authorized (and include authority by the Finance Department) prior to disposing of the items and removing them from the asset inventory listing.

<u>Reason for Control</u>

If an employee can delete assets from the asset inventory listings without prior written approval, theft of assets can be more easily concealed.

4.5.2   Reasons for the disposal should be clearly documented on proper disposal forms and verified by the parties approving the disposal.

<u>Reason for Control</u>

Documentation of the reason for disposing of assets is important should questions arise in the future.

4.5.3   After completing the proper disposal forms, unused assets with the bar code label attached should be forwarded to the Finance Department.

<u>Reason for Control</u>

Forwarding unused assets to the Finance Department allows the item to be reassigned to other departments or disposed of in a proper manner.

5.   BUDGET INTERNAL CONTROL PROCEDURES

A budget that is properly developed, approved and utilized is, in itself, an effective internal control device. But for the budget process to function properly, it is critical that information on operating results be provided to the appropriate personnel and anlysed in a timely manner. Therefore, control procedures in this area are focused on providing accurate information to the proper people and analyzing the information in a timely manner.

5.1   Budgetary Control

5.1.1   Budgets should be sufficiently detailed to provide for meaningful comparison with actual transactions.

Reason for Control

If budgets are divided into overly broad categories of expenses and revenues, they will often be of little help in analyzing what may be significant changes to individual accounts.

5.1.2   Reports comparing budgeted expenses and revenues to actual results should be reviewed on a monthly basis, and an analysis of any significant variances should be performed in a timely manner.
Reason for Control

If actual results are not regularly compared to budgeted amounts, the opportunities to take corrective actions may be lost.

5.1.3   Review year-to-date expenditures often to ensure that budgeted amounts will not be exceeded.

<u>Reason for Control</u>

The budget is of little use as a control process if the most current results are not examined prior to making purchasing decisions.

5.1.4 It is important that the personnel completing the departments purchasing requisitions co-ordinate with departmental employees responsible for monitoring the department's budget. A system should be maintained to track outstanding purchase requisitions, including their amount and the related purchase order number when issued. When reviewing budget to actual information, purchase requisitions that have not yet been issued as purchase orders must be considered as they are not reflected as encumbered rand.

<u>Reason for Control</u>

If personnel responsible for the budget are not informed of purchasing requests, control over the expenditures may be difficult. Therefore, a system should be developed to ensure that a copy of all departmental purchase requisitions is routed to the department's budget personnel in a timely manner. This becomes particularly important in larger departments where there may be many employees involved in both the purchase requisitioning and budget analysis processes.

5.1.5 A budget is an ongoing moving target. Although, each department is monitored on a bottom line basis, the heads of departments are responsible for managing the budget on a line-by-line basis.

<u>Reason for Control</u>

This control procedure is important to ensure that the departmental head is working with realistic goals and is comparing budget to actual information.

6.   PAYROLL INTERNAL CONTROL PROCEDURES

Payroll and related employee benefit costs are usually by far the largest single item of operating expenditure of a Council. The establishment of strong internal controls over payroll is important for several reasons. Some general examples of payroll fraud include listing fictitious employees on the payroll, misstating hours worked or rates of pay, and continuing employees on the payroll after termination. Internal controls are also important to provide assurances that the large volume of information required for every payroll is processed quickly and accurately. In addition, the Council must make sure that it is in compliance with the numerous laws which govern employee benefits, as well as agreements with employee labour organizations.

6.1   Making payroll Changes

6.1.1   All changes in employment status (additions and terminations), salary and wage rates, and employee deductions should be properly authorized, approved and documented in writing.

Reason for Control

Unless all payroll changes are properly authorized, approved and documented prior to making the changes to payroll records and programs, the potential for all types of payroll fraud and unintentional errors greatly increases.

6.1.2   All payroll action forms for additions, terminations and changes in salaries, wages and deductions should promptly be forwarded to Human Resources for review and processing.

Reason for Control

Prompt transmittal of payroll changes to Human Resources helps ensure that the payroll records are accurate and comply with employee bargaining forum contracts. It may also help to eliminate the need for more time-consuming adjustments to employee salaries in the future to correct errors.

6.2   Controlling Payroll Change Forms

6.2.1   Access to payroll change forms, for the payroll transactions listed above, should be strictly controlled at all times. Such forms should be kept in locked cabinets or drawers whenever possible.

Reason for Control

Limiting access to the department's payroll change forms reduces the risk that fraudulent transactions could be made by forging authorized signatures and other information.

6.3   Recording Employee Hours Worked

6.3.1   Whenever possible, there should be segregation of duties between those employees responsible for employment, timekeeping, payroll preparation and record keeping, and payment of salaries.

Reason for Control

The employee responsible for monitoring and approving hours worked should be different from the employee who is responsible for payment of salaries.

6.3.2   Require proper documentation of all time worked by hourly employees to be verified by supervisors who have the opportunity directly to observe the employee during work hours.

Reason for Control

Supervisors who are rarely on site, or are located in areas of the office which make it difficult to monitor employee activities, cannot properly determine whether the hours that employee's record is accurate.

6.4   Overtime Hours

6.4.1   Require prior to written authorization for all employee overtime hours during a pay period.

Reason for Control

A simple way for employees to perpetrate payroll fraud is to over-report overtime worked, particularly if supervisors are not on site during the overtime hours. Prior authorization should be required for all non-emergency overtime hours and should be granted only for specific, verifiable purpose. Prior approval also allows management to make sure that funding for the additional time is provided for in the department's budget.

6.5   On-Line Computer Terminals

6.5.1   Restrict access to payroll programmes by assigning passwords to authorized employees.

Reason for Control

Computer passwords help to provide control over access to sensitive payroll information. Ensure that passwords are not written down and placed in a conspicuous location, such as near the computer terminals.

6.5.2   Require that department employees log off the computer whenever they leave the office.

Reason for Control

Once an employee has logged onto the computer system, anyone can input data. Therefore, it is important to ensure that employees log off the computer whenever they leave the office for lunch or breaks.

6.6   Time Clocks

6.6.1   Using time clocks to record employees hours worked may be a practical solution to recording employee hours worked when accuracy is critically important.

Reason for Control

Not all job positions lend themselves to this type of control procedure, but where employees consistently report to the same job site, electronic time clocks provide a means for independently verifying the hours an employee reports working.

6.6.2   Time clocks should be located where supervisory personnel can monitor their use.

Reason for Control

Time clocks should be placed in an area where their use can be observed by supervisors to discourage an employee from clocking "in" or "out" for co-workers who are not actually present.

6.7   Reviewing Payroll Receipts

6.7.1 Each pay period, reports showing changes to employees' payroll records should be reviewed by a designated employee who has no other payroll duties.

Reason for Control

Review of this type of report by an independent employee provides a check to ensure that all the department's payroll changes were properly authorized and encoded correctly. Support for changes that appear unusual should be reviewed to ensure that they are correct.

6.8 Distributing Salary Cheques

6.8.1 Keep undistributed salary cheques locked up at all times.

Reason for Control

Like all cheques, undistributed salary cheques are negotiable instruments and can be cashed by unauthorized persons if they have access to them.

6.8.2 If feasible, the distribution of salary cheques in a department should be delegated to an employee with no other payroll functions.

Reason for Control

Proper segregation of duties requires that employees who have physical custody of salary cheques not be allowed access to records, authority to hire or to approve payroll transactions.

7. INVENTORY INTERNAL CONTROL PROCEDURES

This area encompasses the control over the wide variety of supplies and materials maintained by the Council. Inventories can consist of small inexpensive office

supplies, but can also include road and maintenance materials, like gravel or lumber. Inventories may also be made up of spare equipment parts, fuel and lubricants, cleaning supplies, or any other consumable items necessary to provide services.

Anything that has value or can be converted to cash is subject to theft. Any item that can be packaged and stored can also be stolen. The physical theft of inventory can occur at any time by an individual either inside or outside the organization if adequate controls over inventories do not exist.

Effective, physical safeguards over inventories are a good deterrent to theft, and timely and accurate inventory reports can help reduce losses by providing early warning signals that misuse or overstocking are occurring. While waste and theft can never be entirely prevented, controls can help to reduce the amount of such losses. Of course, not all losses are caused by theft, carelessness, inefficient ordering practices and failure to follow proper procedures can account for an even greater percentage of losses than theft.

7.1   <u>Purchasing Inventories</u>

7.1.1   Only authorized individuals should be able to purchase replacement inventory for the department.

<u>Reason for Control</u>

If the department limits the number of individuals authorized to order replacement inventory, the potential for ordering unnecessary items is reduced.

7.1.2   Personnel authorized to make inventory purchases should make purchases only from previously approved vendor lists.

Reason for Control

Purchasing only from pre-approved vendors helps to ensure that inventory items will be of acceptable quality and have adequate delivery terms.

7.2   Store Inventories

7.2.1   Storage areas should be kept neat and products stacked uniformly.

Reason for Control

These controls help to make the locating, counting and moving of the inventory more efficient.

7.2.2   Where inventory items are subject to deterioration or obsolescence store stock and materials so that the oldest items are issued first.

Reason for Control

For items with a limited "shelf life" it is important to use inventory in the order received to reduce losses related to deterioration and obsolescence.

7.2.3   When choosing a storage site for inventories, consideration should be given to inventory items which are subject to deterioration owing to weather or other circumstances.

Reason for Control

Care should be taken to choose a site which will adequately protect the inventory from potentially damaging conditions.

7.3   Limiting Access to Inventories

7.3.1   Within the department, specific employees should be assigned responsibility for the custody of the inventory.

Reason for Control

Assigning custody of the inventory to specific employees limits access to assets and may help to reduce theft.

7.3.2   Wherever practical, keep inventories in locked enclosures, rooms and cabinets and restrict access to such areas to a few specific individuals.

Reason for Control

To prevent loss, theft, physical deterioration or misuse, inventories should be stored in secured locations which are not accessible to the public.

7.3.3   Within the department, pre-numbered inventory requisition slips should be used to obtain high rand inventory items for the storeroom area.

Reason for Control

This control provides verification that all inventory receipts and issues are accounted for and helps ensure that at least all significant transactions are recorded.

7.3.4   Someone other than the person responsible for issuing the inventory requisition slips should account for the numerical sequence of the forms.

Reason for Control

Missing or unrecorded slips may indicate a potential problem.

7.4   Conducting Inventory Controls

7.4.1   Conduct physical inventory counts periodically to ensure that all stock recorded is on hand and properly accounted for.

Reason for Control

To detect inventory that has been received or issued, but not recorded, it is important to perform a physical inventory count to verify quantities. Discrepancies between physical counts and recorded amounts should be reconciled in a timely manner.

7.4.2   Prior to conducting counts, storage areas should be straightened out and like items stacked uniformly.

Reason for Control

These controls help to make the locating and counting of the inventory more efficient.

7.5   Handling Items Returned to Inventory

7.5.1   Wherever practical, provide pre-numbered, written receipts forms to the personnel returning inventory whenever items are returned to the storage areas.

Reason for Control

This control helps to maintain the records for accounting for inventory balances and discourages storeroom custodians from not recording the returned items and stealing them.

7.6   Disposing of Inventory Items

7.6.1   Any inventory items that are deemed to be obsolete or otherwise unusable should be mutilated or destroyed so that they cannot be used and the disposal should be properly documented.

Reason for Control

To discourage personnel from intentionally discarding usable inventory and then stealing the items, it is important that this procedure be followed whenever inventory is disposed of.

7.7   Perpetual Inventory (Bin Card) Systems

7.7.1   Maintain perpetual inventory records in both rand and quantities when large amounts of inventory are held within the department. Perpetual inventory records are lists of inventory which are updated as items are received or used. The list can be manually maintained or kept on a computer. This list should provide inventory detail by item, quantity on hand and original cost.

Reason for Control

This type of inventory accounting system helps ensure that all issues and receipts have been accurately recorded in a timely manner.

7.7.2   On a routine basis, randomly conduct test counts of inventory items on hand and compare to the amounts recorded in the accounting records.

Reason for Control

Random test counts will help to confirm whether the perpetual inventory system is operating as it should. It is particularly useful if there are higher rand items in the inventory subject to personal use, as periodic counts may help to detect or discourage theft.