



State of Arizona Accounting Manual

Topic 05 Internal Controls
Section 10 Internal Controls by Process

Issued 04/04/22
Page 1 of 10

INTRODUCTION

Another topic of SAAM deals with the overarching principles and policies governing internal controls. Other topics in SAAM may also contain internal control guidance. This policy statement is to be taken as a complement to, not a replacement of, other internal control directives that may exist in SAAM.

Arizona Government is a complex organization comprised of a number of agencies, locations and operating structures. The policies and procedures set forth below are designed to address internal controls by process and can and should be universally applied for the processes under consideration, whatever the agency, location or operating structure and irrespective of whether or not guidance exists elsewhere. It should be noted, however, that the directives given in SAAM supplement those internal control procedures and activities that agency management implements to support the reliability of financial reporting, efficient and effective achievement of organizational goals, compliance with legal and contractual obligations, and deterrence of fraud, waste and abuse.

The policies and procedures outlined below are in addition to any controls that may be imposed or enforced by an automated system.

POLICY & PROCEDURES

1. Disbursements.

- 1.1. Disbursements include any activity involving accounts payable, payroll, purchasing, P-card, budgeting, and other activities related to initiating or approving the payout of State monies.
- 1.2. Access to any process that results in the disbursement of State monies is limited to authorized users. Processes that result in the disbursement of State monies include, but may not be limited to:
 - 1.2.1. Any payment of salaries or wages as well as any advances or reimbursements to employees or those (such as certain volunteers) who may be treated as employees for the purpose of expense reimbursement.
 - 1.2.2. The use of the P-Card.
 - 1.2.3. The use of APP or a similar system to enter, initiate or approve a claim or payment.

State of Arizona Accounting Manual

Topic 05 Internal Controls
Section 10 Internal Controls by Process

Issued 04/04/22
Page 2 of 10

- 1.2.4. Purchasing, procurement and contracting activities.
- 1.2.5. The ability to modify, manually or in a system other than APP, any document that originated in APP.
- 1.2.6. The ability to enter, delete or modify budgets or budgetary amounts.
- 1.2.7. The ability to generate, modify, cancel or liquidate an encumbrance or pre-encumbrance.
- 1.2.8. The ability to modify transaction codes, chart of account elements or titles, or posting references.
- 1.2.9. The ability to initiate, modify or review the input or output of any batch operation resulting in the disbursement of State monies.
- 1.2.10. The ability to initiate or modify any EFT, ACH or direct deposit information.
- 1.2.11. The distribution of paper warrants as well as the review and audit of any paper warrants prior to their distribution.
- 1.2.12. Access to paper warrant stock, petty cash, blank checks as well as electronic and manual signature stamps.
- 1.2.13. Access to drawn or negotiated paper warrants or checks.
- 1.2.14. Access to check printers and any software or drivers used to operate check printers.
- 1.2.15. Access to any bank information of the State, its employees or its payees.
- 1.3. The ability to add, update, modify, or delete any vendor, employee, tax or deduction table is limited to authorized users.
- 1.4. Access to any input, output, transfer or exchange file involving the disbursement of State monies is limited to authorized users.
- 1.5. The creator or initiator of a document may not be the approver of a document.
- 1.6. An approver of a transaction related to accounts payable may apply only one level of approval.
- 1.7. Appropriate steps must be taken to prevent duplicate payment of an invoice.
- 1.8. Appropriate steps must be taken to prevent improper payments.
- 1.9. The use of electronic payments is encouraged.

State of Arizona Accounting Manual

Topic 05 Internal Controls
Section 10 Internal Controls by Process

Issued 04/04/22
Page 3 of 10

1.10. As applicable, expenditures must comply with the Procurement Code. This means, among other considerations, that purchases are to be made from vendors on State contract whenever practicable.

2. Long-lived resources: fixed assets, collections, infrastructure and stewardship resources.

2.1. The acquisition of any long-lived resource must be appropriately authorized and otherwise comply with State policies.

2.2. The entry of long-lived resource data into any State automated accounting and/or asset management system must be appropriately authorized and otherwise comply with State policies.

2.3. Within any State automated accounting and/or asset management system, the ability to create, modify or delete the data related to long-lived resources and to approve the creation, modification or deletion of such data is to be restricted to authorized individuals.

2.4. The creator or initiator of a document related to a long-lived resource may not be the approver of that document.

2.5. The approver of a transaction related to long-lived resources may apply only one level of approval.

2.6. Appropriate processes and procedures must be adopted to capture and properly record project costs related to:

2.6.1. Development-in-progress and construction-in-progress.

2.6.2. Betterments.

2.7. With respect to long-lived resources, appropriate processes and procedures must be adopted to identify and properly distinguish between expenditures to be expensed (e.g., repairs) and those to be capitalized (e.g. a betterment meeting or exceeding its capitalization threshold).

2.8. The ability to reclassify development-in-progress or construction-in-progress into a capital asset is to be limited to those qualified and authorized to do so.

2.9. To the extent practicable, tangible long-lived resources are to be identified with a physical inventory tag.

2.10. Long-lived resources must be retired, transferred or disposed of in accordance with GAO and SPMO policies and procedures and their retirement, transfer or disposal properly recorded in the appropriate State automated accounting and/or asset management system.

State of Arizona Accounting Manual

Topic 05 Internal Controls
Section 10 Internal Controls by Process

Issued 04/04/22
Page 4 of 10

- 2.11. Long-lived resources that are lost or stolen must be reported to the GAO and their disposition properly recorded in the appropriate State automated accounting and asset management system. (See SAAM 2560.)
- 2.12. The existence, location and condition of long-lived resources must be periodically verified by physical inventory. This inventory should be conducted as frequently as practical and warranted by the facts (transportability, nature and value of the resources, etc.), but no less often than once each fiscal year. A record documenting the physical inventory must be prepared and retained for the period required for financial records by LAPR.
- 2.13. The person or persons conducting a physical inventory of long-lived resources may not be the person or persons who can make or approve the entry into any State automated accounting or asset management system the creation, initiation, deletion, modification, transfer of any long-lived resource.
- 2.14. Management must assure that all additions, modifications and deletions to long-lived assets are reviewed by the end of the month following their entry by someone without access to the fixed asset system that is used to keep track of long-lived resources.

3. Banking.

- 3.1. All bank accounts must be approved by the State Treasurer. (See SAAM 2005.)
- 3.2. All bank accounts must be reconciled monthly. Bank reconciliations are to be retained for the period prescribed for financial records by LAPR. Such reconciliations are to be from the bank statement to the books of account.
- 3.3. Persons performing bank reconciliations should not be authorized to perform any other cash handling, receipting, disbursing or recording functions involving the receipt or disbursement of cash.

4. Receipts and accounts receivable.

- 4.1. Written procedures on all cashiering and related activities must be maintained by each agency.
- 4.2. Cash received must be deposited intact with the State Treasurer as soon as it is practical to do so. In most cases, this means on the day received. When deposit on the day of collection is impractical or impracticable, receipts must be deposited the soonest of:
 - 4.2.1. The end of the business day after they total one thousand dollars (\$1,000) or more;
 - 4.2.1.1. If accumulated receipts total:

State of Arizona Accounting Manual

Topic 05 Internal Controls
Section 10 Internal Controls by Process

Issued 04/04/22
Page 5 of 10

4.2.1.1.1. Fifty dollars (\$50) or more, within five (5) business days of reaching this total.

4.2.1.1.2. Less than fifty dollars (\$50):

4.2.1.1.2.1. Except for monies received in the last month of the fiscal year, by the last business day of the month following the month of receipt.

4.2.1.1.2.2. Monies received in the last month of the fiscal year must be deposited by the last business day of the fiscal year.

4.3. The receipt of cash must be recorded on the day received.

4.4. Cash must be safeguarded until deposited. Cash retained overnight must be secured in a locked receptacle. The number of personnel with access to the locked receptacle, its keys or the combination to its lock should be strictly limited.

4.4.1. The need to change locks or combinations must be considered to adequately provide control over cash in the event of staff departures or reassignments.

4.5. Cash handling and other access to cash should be limited to as few personnel as possible.

4.6. All checks and money orders received must, upon their receipt, be restrictively endorsed "For Deposit Only, [Name of Agency]" or run through a check scanner as described in See SAAM 4025.

4.7. Appropriate segregation of cash handling and cash recording functions must be maintained.

4.8. Personnel responsible for handling or counting cash receipts should not:

4.8.1. Open incoming mail when not in the presence of another.

4.8.2. Issue or record the issuance of professional or occupational licenses or have access to the related licensee database.

4.8.3. Make bank deposits.

4.8.4. Make entries into any journal, ledger, spreadsheet, system or account book recording.

4.8.5. Prepare monthly bank reconciliations.

4.8.6. Be signatories on any bank account or otherwise be able to disburse cash.

4.9. Personal checks must not be cashed or used as an IOU to replace cash.

State of Arizona Accounting Manual

Topic 05 Internal Controls
Section 10 **Internal Controls by Process**

Issued 04/04/22
Page 6 of 10

- 4.10. NSF checks, debit memos, and credit memos must be controlled, pursued and resolved by individuals independent of the cash handling function.
- 4.11. All cash received must be controlled either by pre-numbered cash receipts or by cash register tapes.
- 4.12. The ability to modify any record or document should be strictly limited and require appropriate review and approval.

5. General ledger.

- 5.1. The ability to post, change and delete manual journal entries is to be restricted to authorized individuals.
- 5.2. All manual journal entries require review and approval.
 - 5.2.1. Journal entries posted after a month's end or the annual close require particular attention.
 - 5.2.2. Journal entries representing a change to a previously entered and approved journal entry should be closely scrutinized.
- 5.3. Individuals who approve manual journal entries and adjustments must not be the same individuals who prepare or post the journal entries.
- 5.4. Approvers may not apply more than one approval level to a particular document or transaction.
- 5.5. Recurring entries should be periodically reviewed to confirm that postings are still required and that the entries are authorized and otherwise valid.

6. Inventory.

- 6.1. Segregation of duties between record keeping (the ability to adjust balances without inventory/stock movement) and custodial functions (including the ability to adjust balances involving the movement of inventory/stock) must be implemented and maintained.
- 6.2. Inventories should be stored in such a way as to reduce the risk of loss from fire, theft, temperature, humidity or other factors.
- 6.3. Storekeepers must compare quantities received against receiving reports.
- 6.4. Materials may be released from storerooms only in response to approved requisitions.
- 6.5. Access to storerooms must be limited to authorized individuals.

State of Arizona Accounting Manual

Topic 05 Internal Controls
Section 10 Internal Controls by Process

Issued 04/04/22
Page 7 of 10

- 6.6. Records are to be maintained for transfers to, withdrawals from and returns to storerooms.
- 6.7. Appropriate steps must be taken and appropriate records maintained documenting the disposition of obsolete and/or damaged inventory.
- 6.8. The ability to request replenishment of inventory items by item type for storeroom stock is restricted to authorized individuals.
- 6.9. If the value of an inventory at a particular site equals or exceeds twenty-five thousand dollars (\$25,000), then a perpetual inventory system of some type must be implemented and maintained for the inventory at that site and for all similar inventories held by the agency at all locations. Otherwise, either a periodic or perpetual inventory system may be used.
- 6.10. A physical inventory must be performed no less frequently than annually regardless of the nature of inventory or the type of inventory system used. The annual inventory must be conducted between May 1 and June 30. Records relating to the physical inventory must be retained for the period prescribed for financial records by LAPR.
 - 6.10.1. Adjusting entries relating to the physical inventory are to be prepared, approved and entered into an agency's accounting system not later than the date prescribed in the applicable fiscal year's AFIS Closing Instructions (found on the GAO Website).
 - 6.10.2. The counts and values established by the physical inventory are to be reported to the GAO as part of the annual closing package not later than the date prescribed in the applicable fiscal year's ACFR Closing Package (found in the GAO Website).
 - 6.10.3. An individual who conducts a physical inventory cannot initiate or approve payments to vendors, or otherwise be able to add, modify or delete inventory related records in any accounting system recording inventory items subject to the physical inventory involving such items.
 - 6.10.4. An individual who performs a physical inventory count cannot be the same individual who reviews and validates the inventory count.
 - 6.10.5. Significant discrepancies between physical inventories and accounting records must be investigated and resolved. The discrepancies, the investigative processes and the resolutions must be documented and such documentation retained for audit.
- 6.11. Access to inventory accounting and storeroom records is to be restricted to authorized individuals.

State of Arizona Accounting Manual

Topic 05 Internal Controls
Section 10 Internal Controls by Process

Issued 04/04/22
Page 8 of 10

- 6.12. An individual who creates inventory items in an accounting system cannot be the same individual who issues them.
- 6.13. An individual responsible for physically receiving an inventory item cannot be the same person who approves the purchase order related to that item.
- 6.14. An individual responsible for physically receiving an inventory item cannot be the same person who conducts a physical inventory involving that item.
- 6.15. These policies apply to all inventories, irrespective of their nature or the software system(s) that may be used to account for them.

7. Facilities management.

- 7.1. The ability to create, approve, activate, deactivate and delete location records in any system is restricted to authorized individuals.
- 7.2. The ability to enter utility meter records and to enter utility consumption data in any system is restricted to authorized individuals.
- 7.3. An individual who enters or submits utility consumption data may not approve that data.
- 7.4. The ability to enter, change or delete facilities related contract information is to be limited to authorized individuals.
- 7.5. The ability to create or approve payment request schedules and to generate payment requests related to a facilities related contract is restricted to authorized individuals.
- 7.6. Individuals who submit or enter payment request schedules or payment requests may not approve payment request schedules or payment requests.
- 7.7. The ability to create, modify or approve transaction plans, project requests or proposed project requests is restricted to authorized individuals.
- 7.8. Individuals who create or modify transaction plans, project requests and proposed projects requests may not approve transaction plans, project requests or proposed project plans.
- 7.9. The ability to create, or modify building systems or building equipment is restricted to authorized individuals.
- 7.10. Individuals who create or modify building systems or building equipment may not approve building systems and building equipment.
- 7.11. The ability to create, or modify inspection requests or inspection work tasks is restricted to authorized individuals.

State of Arizona Accounting Manual

Topic 05 Internal Controls
Section 10 Internal Controls by Process

Issued 04/04/22
Page 9 of 10

- 7.12. Individuals who create or modify inspection requests or inspection work tasks may not approve inspection requests and inspection work tasks.
- 7.13. The ability to submit and approve funding requests for new projects is restricted to authorized individuals.
- 7.14. An individual cannot both submit and approve a funding request for new projects.
- 7.15. These policies apply to all facilities, irrespective of their nature or the software system(s) that may be used to account for them.

8. Budgets and appropriations.

- 8.1. The OSPB promulgates the procedures for the submission of the executive budget.
 - 8.2. The ability to enter, modify or approve budgets, appropriations and allotments is restricted to authorized individuals. Except in the case of the GAO, the OSPB and the JLBC (which have statewide access), an authorized individual may only enter, modify or approve budgets, appropriations and allotments for the agency by whom he is employed or engaged.
 - 8.3. An individual cannot both enter or modify and approve an agency budget, appropriation or allotment.
 - 8.4. The individual who approves the entry or modification of a budget, appropriation or allotment for an agency must reconcile entries and modifications to the legal budget.
 - 8.5. The GAO is the final approver of the entry or modification of any budget, appropriation or allotment in AFIS.
 - 8.6. Appropriation transfers must be reviewed by the OSPB and the GAO. Additionally, appropriation transfers made from a:
 - 8.6.1. Payroll line item must be recommended by the JLBC and approved by the ADOA.
 - 8.6.2. Capital outlay line items must be approved by the JCCR.
 - 8.7. Before any monies from an authorized appropriation may be obligated, an allotment schedule must be submitted and approved by the ADOA.
 - 8.8. Requests for allotment transfers or adjustments must be reviewed by the OSPB and approved by the ADOA.
- ## 9. Grants (including expenditures and reimbursements), project accounting and cost accounting.

State of Arizona Accounting Manual

Topic 05 Internal Controls
Section 10 **Internal Controls by Process**

Issued 04/04/22
Page 10 of 10

- 9.1. The ability, in any automated system, to create, delete, modify and maintain the following is restricted to authorized personnel:
 - 9.1.1. Projects.
 - 9.1.2. Grants.
 - 9.1.3. Automated allocation rules.
 - 9.1.4. Automated reimbursement rules.
- 9.2. Approvers may not apply more than one level of approval for a given document or transaction.
- 9.3. Appropriate procedures must be adopted by a grantee to:
 - 9.3.1. Safeguard assets entrusted to it by the grantor.
 - 9.3.2. Ensure the reliability and timeliness of accounting information provided to the grantor.
 - 9.3.3. Comply with all relevant laws, rules, regulations and policies as well as the terms and requirements of the governing grant agreement.
- 9.4. Any revisions to projects or grant agreements must be appropriately documented and the documentation retained for audit.
- 9.5. Procedures must be established that, as grantee, a State agency can identify and capture the data needed for control, monitoring and reporting as required by the grantor.
- 9.6. Procedures must be established and communicated to subrecipients that allow them to identify and capture the data needed for control, monitoring and required reporting.