

# CARROLL COUNTY INTERNAL CONTROL POLICY

Financial Process: **Ledger Review**

Issue Date: June 2016

Topic: Internal Control Procedures

Applicable To: All County Departments

## **Objective**

Departments are responsible for implementing techniques and procedures for reviewing ledgers to ensure all financial transactions are appropriate, accurately described, and properly recorded. Ledger review is one component of a prudent financial management strategy that provides oversight of all department funds and provides management with information about the status of budgets under their control.

## **Risks**

- Undetected errors, irregularities, or misclassifications
- Improper or unauthorized transactions
- Overspent budgets
- Inaccurate financial statements

## **Definition**

The term “ledger” refers to summary records and reports where financial transactions are recorded and posted from details included in subsidiary records. Examples of available ACS reports and queries include the General Ledger Report, Budget Segment Report, GL Queries, Trial Balance reports, etc.

## **Internal Control Procedures Include**

-The Department Head is responsible for reviewing the general ledgers of its department but should delegate the processing the day-to-day transactions to another staff member of the department.

(Separation of Duties)

-The Department Head, Finance Department, and County Administrator should review the ledgers on a quarterly basis; the passage of time makes it increasingly difficult to detect and act upon questionable transactions.

(Monitoring)

-The Department Head should sign or initial the ledger reports to indicate their review and approval. Any corrective actions should be noted and submitted to the Finance Department.

(Approval and Documentation)

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-Generally, ledger review is a broader and less detailed process than the steps involved in financial reconciliations. The department head should be looking for questionable activity that may be erroneous, invalid, or inappropriate. The department head should be on the alert for:

**-Unusual Transactions**

Expense or revenue amounts (or sources) that appear to be out of line with expectations (ie. budgets, historical trends), transactions with unknown or questionable vendors, an unusually high (or Low) volume of transactions, etc.

**-Duplicate or Erroneous Transactions**

Transactions involving the same vendor, invoice, and/or payment amount.

**-Incorrect Chart of Account Classifications**

Questionable activity or balances in the chart of accounts (e.g. fund segment, department segment, account segment, etc.) that are inconsistent with the department's financial activities.

**-Reasonableness**

Experienced reviewers will likely be able to spot transactions or balances that appear unreasonable.

### (Monitoring and Verification)

-The level and effectiveness of existing controls in place over a financial process influences the extent of ledger review that is necessary:

-Strong front-end internal controls may enable a department to reduce (but not eliminate) its reliance on the ledger review process.

-Conversely, weak controls will result in the department relying more heavily on a thorough ledger review process to detect erroneous and inappropriate transactions.

### (Monitoring)

-In a smaller department with limited segregation of duties and controls, ledger review by the department head is a critical financial control.

### (Separation of Duties)

In developing a ledger review strategy, consideration should be given to the following tactics:

**-Materiality Based on Dollar Amount**

Use of a certain dollar threshold to determine which transactions or account balances are of significance and require review. A small sampling of transactions involving similar amounts may also be reviewed, as well as any transactions that appear unusual.

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### -Deviations from Anticipated or Past Expenditure Patterns

Analysis of expenditures (or revenues) by account code (or other logical grouping) based on a percentage of total expenditures compared to budgeted or historical percentages.

### -High Risk Transactions

Focus review on certain chart of account codes (or specific vendors) that may be more likely to contain inappropriate or erroneous transactions.

(Monitoring)

### ACS Related Internal Controls

The primary objective of the Quarter End Closing for Actuals Ledger document is timely and accurate financial reports. Adherence to these instructions will facilitate a more productive ledger review process as any system identified incomplete or erroneous transactions will be corrected prior to quarter-end reporting.

(Reporting)

### Notices

-These internal control procedures are intended to support the internal control framework as presented in the Internal Control Standards Guide

-In consideration of these internal control procedures, the objective should be on adherence and not on rationalizing ways and means for circumvention.

-Nothing in this document shall limit or supersede any applicable Federal or State laws, statutes, bulletins, or regulations.

Date: / /2016

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