

**STATE OF ILLINOIS
OFFICE OF COMPTROLLER**

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**INTERNAL FISCAL AND ADMINISTRATIVE
CONTROL REVIEW OBJECTIVES**

This section identifies and describes internal fiscal and administrative control objectives associated with the eleven major event/transaction cycles commonly found in Illinois State agencies.

The purpose of this section is to help agency chief executive officers identify the major event/transaction cycles and associated control objectives that need to be considered when performing internal control reviews. The list is not all-inclusive and may not be relevant for all agencies. . Also, all internal control objectives listed may not be appropriate for a particular situation.

Accordingly, each agency should use this list as a guide to identify appropriate transaction/event cycles and develop internal control objectives for its programs and administrative functions that are consistent with the overall objectives and requirements of the Fiscal Control and Internal Auditing Act (FCIAA - 30 ILCS 10) and these guidelines.

In establishing control objectives and control techniques, as well as in performing internal control reviews, agencies should be mindful of the inherent limitations (budget constraints, statutory and regulatory restrictions, staffing limitations, etc.) which hamper effective agency action. The lack of achievement of control objectives due to these systematic limitations or cost-effectiveness considerations cannot and should not be considered deficiencies in internal controls.

Further, State agency chief executive officers should consult with their internal auditor(s) when planning the FCIAA internal control review to obtain appropriate input from internal auditing professionals and ensure adequate consideration of the impact of ongoing work performed by the agency's internal auditor(s) on the level of effort required to conduct the FCIAA review.

Every effort should be made to build upon the work performed by internal auditors when conducting the FCIAA internal control review.

MAJOR EVENT/TRANSACTION CYCLES

The major transaction cycles commonly found in State agencies include the following:

1. Organization and Management
2. Administrative Support Services
3. Budgeting, Accounting, and Reporting

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4. Purchasing, Contracting, and Leasing
5. Expenditure Control
6. Personnel and Payroll
7. Property, Equipment, and Inventories
8. Revenues and Receivables
9. Petty Cash and Local Funds
10. Grant Administration
11. Information Technology

Internal control objectives associated with each of these event/transaction cycles are presented below:

1. Organization and Management:

Organization

- Responsibility for the performance of all duties is specifically assigned and appropriately separated along with necessary delegations of authority to sufficient numbers of qualified employees.
- Commitment to the establishment and maintenance of a system of internal control exists.

Audit Follow-up

- Audit resolution and corrective actions pertaining to audit recommendations are made on a timely basis.
- Audits resolved and corrective action on audit recommendations are scheduled in accordance with specific criteria.
- Accurate records of the status of audit reports and recommendations are maintained through the entire process of resolution and corrective action.
- Major disagreements between the audit organization and agency management or contracting officials are resolved on a timely basis.
- Resolution actions are consistent with laws, administrative rules, regulations, and agency policies.
- Resolution and correction action on recommendations involving more than one program, agency or level of government are coordinated.
- Required reports are reliable, accurate and submitted on a timely basis.

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- Claims arising from audit disallowances are promptly recorded as receivables and collected.
- Interest and audit-related debt is charged promptly, without regard to whether the disallowance is or will be appealed.

Information Collection

- Information collected is reliable, meaningful, and useful.
- Information is arranged in an orderly fashion.
- Information is maintained on a current basis.

Correspondence Handling

- Correspondence is channeled to the appropriate parties.
- Replies are made promptly, accurately, and responsively.

Records Maintenance

- Records are readily available.
- Records are adequately secured.
- Only necessary records are retained.

2. Administrative Support Services:

Administrative Support Services

- Services provided meet the agency's legitimate needs.
- Services are conducted in a manner that promotes economy and efficiency in operations.
- Safeguards exist to prevent unauthorized or wasteful use of such services.

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Security and Safeguarding of Classified Material

- Documents are appropriately classified.
- Appropriate safeguards exist to prevent unauthorized access to classified materials.

3. Budgeting, Accounting, and Reporting:

- Authorized budget reflects, to the appropriate degree of accuracy, anticipated revenues and appropriations.
- Approved final budgets are properly entered into the agency's systems.
- Amended budgets are properly approved and entered into the appropriate agency system.
- Recorded general ledger entries are accurate and valid.
- Reported information is consistent, reliable, and timely.

4. Purchasing, Contracting, and Leasing:

- Purchases are authorized within budget limits and made in accordance with applicable laws, administrative rules, regulations, and agreements.
- Lowest prices commensurate with quality, service, delivery, and reliability are paid.
- Purchases and acquisitions are received and examined for acceptability.
- Disbursements are valid and properly approved.
- Disbursements are made on a timely basis.
- Disbursements are recorded promptly and accurately to the appropriate account.

5. Expenditure Control:

Payables, Debt and Other Liabilities

- Payables and other claims against the State are recorded promptly and accurately.
- Pre-audit examinations and certifications of performance are made to ensure validity and clerical accuracy of claims prior to payment.

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- Debt and other long-term liabilities are properly authorized, recorded and serviced in accordance with applicable laws, administrative rules, and regulations.

Fiduciary and Trust Funds

- Liabilities to others are recorded properly.
- Detailed subsidiary records are maintained and are periodically reconciled to control accounts.
- Funds are handled in accordance with applicable laws, administrative rules, and regulations.
- Effective control is maintained by responsible officials.
- Benefits and other disbursements are subject to comparable controls over other payments.

Travel Advances and Reimbursements

- Travel reimbursements and advances are provided only for properly authorized travel.
- Amounts paid are in accordance with applicable travel control board and/or government travel regulations.
- Reimbursements are timely, properly approved and properly recorded to the appropriate account.
- Advances are liquidated within reasonable time periods.

Other Expenditures

- Expenditures are valid and properly approved.
- Expenditures are recorded promptly and accurately in the appropriate accounts.
- Debt service requirements, refunds, valid claims, and other appropriate payments are made timely in full accordance with applicable laws, administrative rules, regulations, and agreements.

6. Personnel and Payroll:

Personnel Policies and Practices

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- Personnel salary ranges are strictly enforced.
- Recruitment, training, evaluation, and termination practices are operating in accordance with applicable laws, administrative rules, agency policies, and regulations in a manner that promotes economy and efficiency of operations.
- Appropriate standards of conduct are communicated and enforced.
- Employment records are promptly, completely, and accurately established with proper safeguards against unauthorized access or the preparation of fictitious records.

Payroll, Pensions and Other Fringe Benefits

- Appropriate authority exists for the appointment, change, and termination of all personnel.
- Compensation and benefit payments are in accordance with current statutory, administrative rules, or regulatory limitations.
- Payments are made only in return for services rendered.
- Gross and net payroll amounts, and payroll deductions are correct.
- Payroll charges, including fringe benefits, are recorded and distributed promptly.
- Timely, accurate, and complete subsidiary records are maintained for vacation, sick leave, and other benefit time balances.
- Overtime pay is approved and used only when necessary.

7. Property, Equipment, and Inventories:

Fixed Assets and Inventories

- Only authorized and needed property is procured.
- Receipts of property are recorded timely and accurately in source documents and accounting records.
- Detailed subsidiary records are maintained for individual fixed assets and significant categories of inventories and are periodically reconciled to control accounts.

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- Periodic physical verification is made of the existence and condition of property and inventories.
- Physical security measures are commensurate with the size, type and value of property.
- Issues, transfers, retirements and losses are reported and accounted for timely.
- Assets are properly requisitioned and used exclusively for government activities.
- Records of asset use are accurately maintained.

8. Revenues and Receivables:

Taxes

- Taxing programs are applied to all individuals and organizations subject to taxes.
- Tax returns and assessments are reasonably correct.
- All receipts are recorded accurately and timely.
- Receipts are safeguarded while in the custody of the agency and promptly deposited.
- Settlements, allowances, and refunds are properly authorized.
- Taxing programs are administered in accordance with applicable laws and regulations.

Services Rendered

- Revenues are recorded immediately as services are rendered with accounts receivable promptly established and billed on a timely basis.
- Receipts are recorded accurately and timely.
- Receipts are safeguarded while in the custody of the agency and promptly deposited.
- Services rendered and related charges are conducted in accordance with applicable laws, administrative rules, and regulations.
- Duties are properly segregated.

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Other Sales

- Sales are recorded immediately as items are sold with accounts receivable promptly established and billed on a timely basis for non-cash sales.
- Receipts are recorded accurately and timely.
- Receipts are safeguarded while in the custody of the agency and are promptly deposited.
- Sales of goods, property, equipment, bonds, notes, and other items are conducted in accordance with applicable laws and regulations.

Fines, Penalties and Judgments

- Fines, penalties, and judgments are levied on or sought from individuals and organizations as required by laws or regulations.
- Fines and penalties are charged at the proper statutory rate.
- All receipts are recorded accurately and timely.
- Receipts are safeguarded while in the custody of the agency and are promptly deposited.
- Rescissions and forgiveness are properly authorized.

Cash

- Physical security safeguards are maintained where cash is stored and processed.
- Cash, check signing machines, signature plates and blank, partially prepared, mutilated, and voided checks are protected from unauthorized use.
- Receipts are recorded properly and timely and deposited promptly.
- Disbursements are recorded properly and timely.
- Effective cash management system is maintained.

Negotiable Instruments and Other Investments

- Physical security safeguards are maintained where negotiable instruments and other investments are stored and processed.
- Bonds, drafts, and other securities are protected from unauthorized use.

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- Timely and accurate accounting is maintained.
- Investments comply with legal requirements.
- Interest and other investment income are collected promptly when due.

Receivables

- Prompt and accurate recording of all receivables is maintained.
- Ability exists to determine and report sources and age of receivables.
- Continuous and timely attempts are made to collect receivables due.
- The portion of receivables that may not be collectible is identified.
- Validity of write-offs, conversions and settlement or forgiveness of receivables exist.
- Repayments are collected, controlled and reported in a manner consistent with applicable laws, administrative rules, and regulations.
- Title to property used as collateral is properly recorded, filed, and secured.

9. Petty Cash and Local Funds:

- Physical security safeguards are maintained where cash is stored and processed.
- Petty cash and local funds are subject to adequate accountability.
- Receipts are recorded properly and timely and deposited promptly.
- Disbursements are recorded properly and timely.
- Effective cash management system is maintained.

10. Grant Administration:

- Factors used in distribution formulas for applicable grants are accurately maintained.
- Grantees' program eligibility requirements are sufficiently detailed to ensure that the program beneficiaries and other interested parties understand the qualifications to receive prescribed benefits.
- Grantees maintain sound organizational, budgetary, and accounting systems that are periodically reviewed and evaluated.
- Grantees' procurement procedures comply with law, administrative

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rules and regulations.

- Grantees properly maintain, safeguard and account for government-financed property and equipment.
- Grantees maintain current cost allocation plans and overhead rates.
- Grantees are paid only for allowable costs and amounts.
- Financial compliance audits of grantee activity are performed as required. Prompt and appropriate grant close-out actions are taken.
- Potential irregularities which could create a significant liability to the grantor is minimized.

State Assistance Payments to Other Governmental Units and Individuals

- Disbursements are valid and properly approved.
- Disbursements are recorded promptly and accurately to the appropriate accounts.
- Payments are within budget limits and in accordance with applicable laws, administrative rules, regulations, and agreements.
- Payments are made only to eligible recipients for eligible costs.
- Payments are made promptly and in full.

11. Information Technology:

- Proper authorization of transaction inputs, adequate edit checks and necessary safeguards of sensitive input forms exist to insure accurate, proper, complete and timely entry of information.
- Data is safeguarded to prevent unauthorized access, improper changes, or loss.
- Appropriate controls exist to detect unauthorized use of the system.
- Outputs are produced accurately, completely and timely.

The following presents internal control review objectives for those agencies that segment their activities into operations cycles:

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OPERATIONS CYCLES

The operations cycles are intended to encompass the agency's program activities that are subject to these guidelines. The differences in agency missions make it impossible to develop a representative list of operations cycles and corresponding control objectives. Hence, each agency/agency component should examine its own programs and define the appropriate transaction/event cycles and control objectives.

The following are the operations cycles for some typical government programs and the internal control objectives for these cycles.

Production Activities

The primary internal control objectives normally associated with production activities include the following:

- A production plan is authorized defining the products to be manufactured, the timing and quantities of production, and the needed inventory levels.
- Lead time schedules are timely and accurate and permit realistic due dates.
- Product quality and engineering standards exist and are monitored to ensure that quality products are produced as efficiently as possible.
- Production controls exist to ensure that the plant is operating with the optimum mix of resources including labor, equipment and materials.
- Production controls exist to prevent the manufacture of unauthorized products or quantities of products.
- Resources used and products completed are timely and accurately reported.
- Production costs are computed accurately and recorded timely.
- Recorded balances of inventory, property and related activity are periodically substantiated and evaluated.

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Loans and Loan Guaranties

The primary internal control objectives normally associated with loans and loan guidelines include the following:

- Applications for loans and loan guaranties are evaluated for appropriateness of eligibility, collateral, and other qualifying criteria prior to approval

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- (1) Security interest in property used as collateral is properly recorded and filed, and documents are secured by a responsible custodian.
- (3) Aging receivables are prepared accurately, systematically, and timely.
- (4) Loan and loan guaranty repayments are collected, controlled and reported in a manner that is consistent with applicable appropriations, other law and policy.
- (5) Periodic estimates are made of uncollectible loan balances with such estimates timely reported to management.
- (6) Proper write-off, conversion and settlement, or forgiveness of delinquent loans is assured.