

Section I - Introduction

SELF-ASSESSMENT OF INTERNAL CONTROLS

INTRODUCTION

The Self-Assessment of Internal Control questionnaire is a tool utilized by the Hawaii State government to confirm the presence of an internal control system within State government. This tool is completed by all State departments and agencies (departments) that are reported as part of the primary government within the State's Comprehensive Annual Financial Report (CAFR). State departments and agencies that have their financial statements discretely presented as component units and major proprietary funds in the State's CAFR are also required to complete this questionnaire, as appropriate.

An internal control system provides the State's management with reasonable assurance that the State's financial statements are presented fairly.

The ultimate responsibility for a strong system of internal control rests with the State's management. On an annual basis, when submitting financial statement information management must attest to the accuracy of that information along with the soundness of its established internal controls. The questionnaire is the key tool in making these assertions.

The questionnaire consists of the following sections and accounting cycles:

General Elements of Internal Control

1. Control Environment
2. Risk Assessment

Budget and Financial Cycles

3. Financial Reporting Cycle
4. Budget Reporting Cycle
5. Cash Receipts Cycle
6. Accounts Receivable Cycle
7. Purchasing / Accounts Payable Cycle
8. Human Resources Cycle
9. Inventory Cycle
10. Capital Assets Cycle
11. Computer Security Cycle
12. Investment Cycle
13. Debt Cycle

Federal Program Compliance

14. Major Federal Financial Assistance Cycle

General Requirements

- Davis-Bacon Act
- Allowable Costs / Cost Principles
- Period of Availability
- Procurement and Suspension and Debarment
- Program Income
- Cash Management
- Reporting

Specific Requirements

- Activities Allowed or Unallowed
- Matching, Level of Effort, or Earmarking
- Eligibility

Supplemental Requirements

- Subrecipient Monitoring

Within each cycle, except the control environment and risk assessment, five internal control elements are to be reviewed. Many aspects of internal control are currently documented in the State laws, Hawaii Administrative Rules, the State's Accounting Manual, Comptroller's Memorandums, and the State Procurement Office's policies and procedures and circulars and directives. These statewide policies and procedures are updated on a regular basis.

Not all transaction cycle questionnaires will apply to all departments and not all federal compliance questionnaires will apply to all federal programs. All applicable transaction cycle type questionnaires should be filled out for each department and for each sub-unit where the cycle is separate and distinct. One set of federal compliance questionnaires must be filled out for each major federal program. Not all the questionnaires are applicable to all programs.

The majority of the questions are phrased so that a "Yes" answer indicates control strength and a "No" answer indicates a potential weakness. It is not expected that a questionnaire will have all "Yes" answers even if controls are adequately addressed. The questionnaire serves as an aid in evaluating how well risks are being addressed through present control policies and practices. They are also designed to raise awareness of certain issues and encourage further analysis and discussion. Other risk assessment and management activity is required to adequately address issues raised and provide adequate control.

The Audit Division, Department of Accounting and General Services, should be contacted if there are any questions concerning this questionnaire. The internal control questionnaire should be maintained for review and audit.