

# *Prosecuting Attorney Financial Management System Manual*



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Legislative Joint Auditing Committee  
[www.arklegaudit.gov](http://www.arklegaudit.gov)  
ARKANSAS LEGISLATIVE AUDIT  
November 2022

# Arkansas Legislative Audit

## Supervisory Personnel for County Government Audits

[www.arklegaudit.gov](http://www.arklegaudit.gov)

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## Introduction

For the finances of the Prosecuting Attorney's Office, there can be no more important issue than proper internal controls.

Your first priority, as it concerns the financial business of the Prosecuting Attorney's Office, is to create an environment that makes it as difficult as possible for any single person to take advantage of the accounting system and thereby perpetrate fraud. That is what internal control is all about. You cannot base your accounting system on an evaluation of your bookkeeper's integrity.

A pillar of good internal control is proper segregation of duties. Areas to address when segregating duties include, but are not limited to, the following:

- Receipting.
- Preparing and making deposits.
- Reconciling.
- Approving the reconciliation.
- Posting the journals.
- Signing and co-signing disbursements.
- Initiating purchases.
- Receiving goods.
- Assigning custody of investments.
- Maintaining capital asset records.

Avoid situations in which only one person has access to **ALL** accounting and financial duties.

Once you have established an environment of proper accounting controls, the next step is to be vigilant in maintaining them. Without complete and accurate financial records and inventory controls, the function of your Office will not be complete.

Your primary focus may be in areas other than finances, but as Prosecuting Attorney, you remain responsible and accountable for the financial activities of your Office. Hopefully, this manual will provide guidance for maintaining your accounting records.

## I. Basic Accounting Procedures

A. The following is a list of the common bank accounts that may be maintained.

1. Hot Check Fee – To account for the receipt and disbursement of the Prosecuting Attorney’s hot check fee revenue collected pursuant to Ark. Code Ann. § 16-21-120 in the amounts authorized by Ark. Code Ann. § 21-6-411.
2. Contingent Expense – To account for the receipt and disbursement of the contingent expense funds received by the Prosecuting Attorney or Deputy Prosecuting Attorney from the counties. Disbursement of these funds should be documented by either an itemized listing or a numbered invoice.
3. Federal Grant – To account for the receipt and disbursement of miscellaneous federal grants received by the Prosecuting Attorneys that are restricted for a certain purpose.
4. General Fund – To account for the receipt and disbursement of all operating revenue that is not accounted for in any other operating fund.
5. Victims of Crime (VOCA) – To account for the receipt and disbursement of the VOCA grant funds received by the Prosecuting Attorney.
6. Drug Control – To account for the receipt and disbursement of all funds received from the Asset Forfeiture Account, as required by Ark. Code Ann. § 5-64-505, and federal forfeitures to the Prosecuting Attorney’s Office.
7. Hot Check Trust – To account for the receipt and disbursement of all hot check restitution authorized by Ark. Code Ann. § 16-21-120.
8. Asset Forfeiture – To account for the receipt and disbursement of all funds received from monies forfeited or from the sale of forfeited property pursuant to Ark. Code Ann. § 5-64-505.
9. Court Ordered Restitution – To account for the receipt and disbursement of all court-ordered restitution.

B. A separate cash receipts and disbursements journal should be maintained for each bank account (see example at [Exhibit 1](#)). Revenue and expenditure categories should adequately identify the source of revenue and type of expenditure.

Expenditures fall into one of the following five major categories:

1. Personal Services – All salaries, Social Security and retirement matching, and fringe benefits (i.e., salaries, extra help, contract labor, social security matching, retirement matching, etc.).

## I. Basic Accounting Procedures (continued)

Expenditures fall into one of the following five major categories (continued):

2. Supplies – Provides a detailed breakdown of various articles or commodities that are either consumed or materially altered when used (i.e., office supplies, operating supplies, repair and maintenance, small equipment, etc.).
  3. Other Services and Charges – Expenditures not included in any of the other four categories (i.e., professional services, communications, travel, insurance, utilities, etc.).
  4. Capital Outlays – Expenditures that normally result in additions to fixed assets (i.e., machinery and equipment, vehicles, building, land, etc.).
  5. Trust Fund Disbursements – Disbursement of hot check, restitution collections, and asset forfeitures to the appropriate agency.
- C. A bank reconciliation should be prepared monthly for each bank account (see example at [Exhibit 2](#)). The reconciliation should be approved by someone other than the preparer.
- D. If Trust Funds have a cash balance at the end of the month, the balance should be identified according to whom the funds are due.
- E. A separate set of receipts should be maintained for each account. Receipts should conform to the following:
1. Be prenumbered and identify, at a minimum, the Prosecutor's Office and fund. A printer's certificate is to be retained to verify the range of receipts purchased.
  2. Receipts should indicate the method of payment used: cash, check, money order, or credit card.
  3. Receipt numbers should be written on the face of checks received.
  4. Voided receipts should be clearly marked VOID, and all copies of voided receipts should remain attached in the receipt book.
  5. If an electronic receipting system is used, the system should be in compliance with the Information Systems Best Practices Checklist provided by the Legislative Joint Auditing Committee.
- F. Deposits should be made intact (i.e., in the same form and manner as received upon collection). Deposit slips should indicate the range of receipts being deposited.

## **I. Basic Accounting Procedures (continued)**

### **G. Disbursements**

1. Disbursements should only be made by prenumbered check.
2. Checks should contain dual signatures: the Prosecuting Attorney and one other authorized individual.
3. Voided and spoiled checks are to be retained and clearly marked "VOID."

## **II. Financial Reporting – Hot Check Fees**

The financial reporting for hot check fees is necessitated by Ark. Code Ann. § 16-21-120. This Code section requires the Prosecuting Attorney to annually prepare and present to the quorum court of each county within his or her district a report showing all receipts and disbursements from the Hot Check Fee Account. The report required can easily be obtained from properly maintained and sufficiently detailed receipt and disbursement journals.

In accordance with Ark. Code Ann. § 16-21-120, the expenditure of hot check fees shall be at the sole discretion of the Prosecuting Attorney and may be used only to defray the salaries and expenses of the Prosecuting Attorney's Office, but in no event may the Prosecuting Attorney or any Deputy Prosecuting Attorney who is paid on the fee system supplement his or her own salary, nor may the Prosecuting Attorney increase any employee's salary, without approval of the quorum court of the county where employed from this fund.

## **III. Drug Enforcement Funds**

- A. A separate drug control fund is required to be maintained by the Prosecuting Attorney by Ark. Code Ann. § 5-64-505 if the Prosecutor receives forfeiture proceeds. All drug control funds are to be receipted on prenumbered receipts, deposited into this bank account, and recorded as revenue in the drug control fund. All disbursements from the fund are to be made by prenumbered checks.
- B. If drug control funds are disbursed to a law enforcement agency (e.g., local police, county sheriff, State Police) for drug buy purposes, then the accountability for the funds should be the responsibility of that agency.
- C. If the Prosecuting Attorney's Office disburses drug control funds for its own drug buy purposes, disbursements are recommended to be (a) to a designated individual in charge of said funds or (b) to the actual undercover officer.

### III. Drug Enforcement Funds (continued)

1. For funds disbursed to a designated individual in charge of the funds, we recommend a "Cash on Hand Report" be maintained. Pre-numbered checks drawn to the custodian of the fund and cashed for subsequent disbursement to an undercover officer would be entered as debits on this report, while cash remitted to the undercover officer would be entered as a credit. The balance on this report would be the amount of cash on hand with the fund custodian at any given time (see example at [Exhibit 3](#)).
2. For funds disbursed to an undercover officer, either by the cash fund custodian, as in C.1. above, or by check from the drug control bank account, an undercover officer log book is to be maintained. The undercover officer should file a monthly Undercover Officer Report with the Prosecutor. This report should be a recap of the officer's log book. When possible, invoices should be attached to the report to document disbursements (see example at [Exhibit 4](#)).
3. The Prosecutor or the designated officer in charge of the drug enforcement fund should maintain a transaction card on each undercover officer, regardless of the manner in which the undercover officer receives drug enforcement funds. The transaction card should contain the officer's name, transaction date, transaction description, transaction amount, and balance. The transaction card balance should be reconciled monthly to the Undercover Officer Report balance (see example at [Exhibit 5](#)).
4. Undercover Officer Reports should be filed by the undercover officer's name. As an alternative, the undercover officer may be assigned a unique number or name and the report filed accordingly. The cross indexing of code names and/or numbers to actual officers' names could be maintained in a secure location, separate from other accounting records. Records could also be similarly maintained for informants.
5. If feasible, the undercover officer should obtain a receipt from an informant when funds are paid to an informant (see example at [Exhibit 6](#)).

#### D. A note concerning Drug Enforcement Funds

Arkansas Legislative Audit (ALA) has no desire to become part of the evidence chain in any criminal case or to compromise the safety of any law enforcement officer or confidential informant. However, as established by Arkansas Code, ALA has a responsibility to audit drug enforcement funds, and Prosecutors have a fiduciary responsibility to citizens to properly account for a government's funds. Although this can be a difficult line to walk, a little planning, common sense, and reason will go a long way in helping both ALA and you, the Prosecutor, accomplish proper accounting of drug enforcement funds. ALA does not want to disrupt your ability to enforce the law and remove a criminal from mainstream society. We must, however, do our job, just as you must do yours.



#### **IV. Accounting Practices and Procedures – General**

- A. The duties of receipting cash, preparing bank deposits, posting the journals and reconciling the bank statements should be done by different individuals, if possible.
- B. All monies should be maintained in depositories approved for such purposes by law. The Prosecuting Attorney or Deputy Prosecuting Attorney should monitor bank balances monthly to determine if the total funds deposited in each financial institution exceed the FDIC Insurance limits (generally \$250,000 per depositor). If FDIC limits are exceeded, collateral should be obtained from the financial institution to cover amounts in excess.
- C. Bank Imaging

A financial institution serving as a depository of public funds and wishing to provide only imaged documents is required by Ark. Code Ann. §§ 19-2-501 – 19-2-507, 19-2-509 to meet certain requirements. One requirement is that the method chosen be approved by ALA.

If your financial institution is not providing all original cancelled checks, you should obtain from that institution a copy of the ALA letter of authorization of an alternative method.

- D. Petty cash funds should be maintained on an imprest basis.
- E. Timesheets should be prepared and approved for all employees. Additionally, records should be maintained reflecting annual leave and sick leave earned and used. Annual earnings should be reported on the appropriate Internal Revenue Service (IRS) Form W-2 or 1099.
- F. Payroll taxes should be properly withheld and remitted, along with the appropriate payroll tax matching. Individual earnings records should be reconciled to the remittance reports and the cash disbursements journal. All persons entitled to coverage by the Arkansas Public Employees Retirement System (APERS) should be enrolled in the system.
- G. Restricted revenues should be expended only for the purpose received.
- H. Unclaimed Property

Ark. Code Ann. § 18-28-201 and [www.auditor.ar.gov](http://www.auditor.ar.gov) should be referenced for guidance in handling unclaimed property, which includes, but is not limited to, seized items and stale-dated outstanding checks.

## **V. Collection, Receipt, and Deposit Procedures**

- A. Prenumbered receipts must be issued for all funds received, including bank interest deposited directly to the bank. Receipts must be issued in numerical order and deposited in the order the funds were received (intact).
- B. Operating fund receipts should be issued in the name of the remitting party and should reflect the date, amount, purpose, fund credited, and signature of the employee receiving the funds.
- C. Trust fund (hot checks/court-ordered restitution) receipts should be issued in the name of the defendant, regardless of who pays the restitution. The receipt should also note the actual payor. Receipts should be in triplicate, with one copy for the check writer, one copy for the defendant file, and one copy to remain in the receipt book, and should include the following:
  - Complaint number.
  - Type of payment received (i.e., cash, cashier's check, money order, or journal entry).
  - Amount of restitution.
  - Prosecuting Attorney's fee (if applicable).
  - Merchant's fee (if applicable).
  - Court cost (if applicable).
  - Total of funds received.
  - Signature or initials of person issuing receipt.
  - Authorizing court order number.
  - Date.
- D. All journal entries will be those cases where the restitution is made payable to the merchant, with the Prosecuting Attorney initially receiving this restitution, issuing a journal entry receipt, recording the receipt in the cash receipt and disbursement journal, indicating on the defendant's subsidiary restitution ledger that the hot check has been made good, and then forwarding the restitution to the merchant.
- E. At least weekly, the receipts should be entered in the cash receipts journal and include all appropriate information pertaining to the receipt, such as date, receipt number, payor, classification, etc.
- F. Bank deposits should be prepared at least weekly. The range of receipts being deposited should be noted on each deposit slip.
- G. The receipts journal should be totaled and balanced on a monthly and yearly basis.

## **V. Collection, Receipt, and Deposit Procedures (continued)**

- H. Bank reconciliations should be prepared promptly on a monthly basis. Reconciliation procedures should include reconciling deposits reflected on the bank statement with total receipts issued per receipts journal.
- I. Returned (NSF) checks should be redeposited on a separate deposit slip noting the original receipt number. If the check is not made good, the original receipt should be voided and should note the NSF check.
- J. The cashing of accommodation checks should be prohibited.
- K. For restitution, the reconciled bank balance should be identified to receipts issued but not yet remitted to the appropriate party.

## **VI. Disbursement Procedures**

- A. Disbursements should be made by prenumbered check and properly authorized by the appropriate official.
- B. Invoices should be properly canceled and note the check number, date paid, and fund from which it was paid. Invoices should be maintained to support disbursement of funds.
- C. For restitution, the receipt number evidencing collection of the restitution should be entered on the check.
- D. At least weekly, the checks should be entered in the cash disbursements journal and include all pertinent information pertaining to the check, such as date, payee, check number, classification, etc.
- E. The cash disbursements journal should be totaled and balanced both monthly and yearly.
- F. Bank reconciliations should be prepared promptly on a monthly basis. Reconciliation procedures should include reconciling withdrawals reflected on the bank statement with total disbursements per the journal.
- G. Detailed fixed assets records should be maintained for all disbursements classified as capital outlay. The fixed assets record should contain the cost, brief description, classification, location, serial number, and date purchased.
- H. Loans and payroll advances to officials and employees and accommodation purchases should not be permitted.
- I. Petty cash disbursements should be properly supported by invoices. The invoices should be maintained and used as support for the reimbursement check to replenish petty cash.

## **VI. Disbursement Procedures (continued)**

### **J. Travel Expenditures**

1. A travel policy should be adopted.
2. The policy should indicate the nature and extent of documentation required for reimbursement of travel expenses, including mileage, receipts for lodging, and invoices for incidentals. Documentation may be required for meal reimbursement, and a maximum amount per meal or per day should be included.
3. All claims for travel reimbursement should be approved with supporting documentation by the appropriate official.

## **VII. Hot Check Collection Procedures**

### **A. Initial Complaint Form**

To properly account for the collection of hot checks, it is necessary to control the initial receipt of the hot check from the merchant as well as the receipt of restitution, merchant fees, hot check fees and other funds when the check is redeemed.

The initial receipt of the hot check from the merchant should be documented by the issuance of a prenumbered form. This form should be one of the following.

1. A prenumbered initial complaint form, submitted in triplicate, with one copy filed numerically, one copy filed alphabetically, and one copy given to the merchant.
2. An initial complaint form mechanically numbered upon receipt in the Prosecuting Attorney's Office, submitted in triplicate, with one copy filed numerically, one copy filed alphabetically, and one copy given to the merchant.
3. A two-part bound prenumbered hot check transfer form that reflects date received; merchant's name and address; a list of hot checks with the check date, payee, amount, and total of checks received; and the signature of the person issuing the form. The original copy should be issued to the merchant, and the other should remain in the receipt book.

### **B. Subsidiary Restitution Ledger**

A subsidiary restitution ledger is to be maintained in the format prescribed by the Hot Check Manual published by the Prosecutor Coordinator's Office.

## **VII. Hot Check Collection Procedures (continued)**

### **B. Subsidiary Restitution Ledger (continued)**

If the initial complaint form is utilized as the subsidiary restitution ledger, the form should include the following information:

1. Merchant's fee.
2. Prosecuting Attorney's fee.
3. Receipt number, date paid, and amount.
4. Prosecuting Attorney's check number, date disbursed, and amount.

The initial complaint form should be maintained alphabetically, with active and inactive cases filed by year.

### **C. Individual Defendant's File**

An individual file should be maintained for each hot check writer and should contain:

1. Initial complaint form(s).
2. Copy of the receipts.
3. The hot check, if a balance is still owed, or an appropriate notation.
4. A copy of the initial complaint form, if a warrant has been issued, or an appropriate notation.

### **D. Court-Ordered Restitutions**

For court-ordered restitution, an individual defendant's ledger card should be maintained reflecting the following information:

1. Judicial court order number.
2. Total restitution to be collected.
3. Restitution collected.
4. Receipt number evidencing collection.
5. Restitution disbursed and check number evidencing disbursement.
6. Ending balance owed.

**VII. Hot Check Collection Procedures (continued)**

D. Court-Ordered Restitutions (continued)

A control card should be maintained summarizing the balances of the individual defendant's ledger cards.

A file should be maintained for judicial court-ordered restitution.

JUDICIAL DISTRICT PROSECUTING ATTORNEY'S OFFICE  
CASH RECEIPTS JOURNAL

<u>Date</u>	<u>Receipt Number</u>	<u>Issued To</u>	<u>Total</u>	<u>Hot Check Fees</u>	<u>Forfeitures</u>	<u>Court Cost/fees</u>	<u>Federal Grants</u>	<u>Other Descriptions</u>
1/3/22	001	Hot Check Trust	\$ 50.00	\$ 50.00				
1/5/22	002	Asset Forfeiture	800.00		\$ 800.00			
1/7/22	003	John Smith	50.00				\$ 50.00	
1/12/22	004	District Court Clerk	100.00			\$ 100.00		
1/22/22	005	Void						
1/31/22	008	District Court Clerk	50.00	50.00		50.00		
1/31/22	009	US Treasury	5,000.00				5,000.00	
Monthly Totals			<u>6,050.00</u>	<u>\$ 100.00</u>	<u>\$ 800.00</u>	<u>\$ 150.00</u>	<u>\$ 5,050.00</u>	
Year-to-date Totals			<u>\$ 6,050.00</u>	<u>\$ 100.00</u>	<u>\$ 800.00</u>	<u>\$ 150.00</u>	<u>\$ 5,050.00</u>	

JUDICIAL DISTRICT PROSECUTING ATTORNEY'S OFFICE  
CASH DISBURSEMENTS JOURNAL

<u>Date</u>	<u>Check Number</u>	<u>Issued To</u>	<u>Total</u>	<u>Payroll</u>	<u>Supplies</u>	<u>Capital Outlay</u>	<u>Other Descriptions</u>
1/31/22	101	Employee	\$ 697.50	\$ 697.50			
1/31/22	102	Walmart	232.50		\$ 232.50		
1/31/22	103	Smith Furniture	4,500.00			\$ 4,500.00	
Monthly Totals			<u>5,430.00</u>	<u>697.50</u>	<u>232.50</u>	<u>4,500.00</u>	
Year-to-date Totals			<u>5,430.00</u>	<u>697.50</u>	<u>232.50</u>	<u>4,500.00</u>	

**NOTE:** This is a general sample cash receipts and disbursements journal. For each type of account maintained, this would be the proper format. Of course, columnar headings would change to reflect types of revenues collected and types of disbursements. Monthly and year-to-date totals are required.

\_\_\_\_\_  
JUDICIAL DISTRICT PROSECUTING ATTORNEY'S OFFICE  
MONTHLY BANK RECONCILIATION

Bank Balance Per Bank Statement January 31, 2022	\$ 4,500.00
Additions:	
Deposits in transit	
Deductions:	
Outstanding check #103	<u>(4,500.00)</u>
Adjusted Bank Balance	<u>\$ .00</u>
Balance Per Cash Receipts and Disbursements Journal	<u>\$ .00</u>

APPROVED BY: \_\_\_\_\_



PROSECUTING ATTORNEY'S CASH ON HAND REPORT

Prosecutor Name (Dayrider) - Maintained by Prosecuting Attorney/Person in charge of fund

<u>Date</u>	<u>Transaction</u>	<u>Debit</u>	<u>Credit</u>	<u>Balance</u>
08/01/22	Check # _____	\$ 1,000.00		\$ 1,000.00
08/01/22	Given to (Name of officer - Nightrider)		\$ 500.00	500.00
08/15/22	Check # _____	500.00		1,000.00
08/15/22	Given to (Name of officer - Nightrider)		600.00	400.00

NOTE: This report is to be used ONLY to account for "cash" activities.

UNDERCOVER OFFICER'S REPORT  
FOR THE MONTH OF AUGUST, 2022

Drug Buys	Prop#/Case# <u>SR/85B (Cocaine)</u>	<u>\$ 600.00</u>
	_____	_____
	_____	_____
Informants		<u>200.00</u>
Gasoline		<u>202.00</u>
Rent	(See Attached invoices)	_____
Utilities	(See Attached invoices)	_____
Vehicle repairs	(See Attached invoices)	_____
Vehicles	(See Attached invoices)	_____
Other (Explain)		_____
<u>Rock Concert Tickets</u>	(See Attached invoices)	<u>40.00</u>
_____	(See Attached invoices)	_____
_____	(See Attached invoices)	_____
_____	(See Attached invoices)	_____
_____	(See Attached invoices)	_____
_____ <i>m. Nightinder</i>	(See Attached invoices)	_____
	Total	<u>\$ 1,042.00</u>
Balance on hand @ August 31, 2022		<u>\$ 58.00</u>

Signed: \_\_\_\_\_  
(Undercover Officer)

UNDERCOVER OFFICER'S TRANSACTION CARD

Nightrider/# - Maintained by Prosecuting Attorney/Person in Charge of Fund

<u>Date</u>	<u>Transaction</u>	<u>Debit</u>	<u>Credit</u>	<u>Balance</u>
08-01-22	Advance to officer	\$ 500.00		\$ 500.00
08-15-22	Advance to officer	600.00		1,100.00
08-31-22	Report submitted		\$ 1,042.00	58.00

RECEIPT

For, and in consideration of, the sale and delivery of the Prosecuting Attorney information and/or evidence identified as follows:

Purchase of Cocaine  
Purchase of Marijuana

I hereby acknowledge receipt of \$ 200.00 paid to me by the County Sheriff.

Date: 8-21-10 Signature: John Doe

Witnessed by:

M. Nightingale

Debit slip kept in investigator's file

**CERTAIN ARKANSAS CODE SECTIONS RELATING TO THE FINANCIAL RECORDS  
OF THE  
PROSECUTING ATTORNEY'S OFFICE**

The following Arkansas Code sections have not been reproduced for inclusion in this booklet. The list should not be considered comprehensive but can be used in conjunction with the Arkansas Code of 1987 Annotated. Copies of applicable Arkansas Code may be accessed at the following web address:

<http://www.lexisnexis.com/hottopics/arcodes/default.asp>

**Selected Arkansas Code Sections:**

**Ark. Code Ann. § 5-64-505**

Property subject to forfeiture – procedure – disposition of property (Uniform Controlled Substances)

**Ark. Code Ann. § 10-4-429**

Report of security incident (requires public entities to report information systems security incidents to Arkansas Legislative Audit)

**Ark. Code Ann. § 16-21-119**

Contingent expense funds

**Ark. Code Ann. § 16-21-120**

Hot Check Fees

**Ark. Code Ann. § 14-14-1202**

Ethics for county government officers and employees

**Ark. Code Ann. § 14-14-1203**

Compensation and expense reimbursements generally (including travel expense reimbursements)

**Ark. Code Ann. § 14-14-1207**

Reimbursement of allowable expenses

**Ark. Code Ann. §§ 14-22-101 – 14-22-115**

County purchasing procedures (including bidding process; purchases in excess of \$35,000, unless exempt, should be bid)

**Ark. Code Ann. §§ 18-28-201, 18-28-207 – 18-28-208**

Unclaimed property

**Ark. Code Ann. §§ 19-2-501 – 19-2-507, 19-2-509**

Requirements for photographic copies or digital images of financial transactions (bank statements, cancelled checks, etc.)

**Ark. Code Ann. § 19-11-107**

Data Company (requires data storage companies to return data to public entity)

# APPENDIX

## Arkansas Legislative Audit

### Information Systems Best Practices



August 2021

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## PURPOSE

Arkansas Legislative Audit (ALA) establishes the following Information System (IS) Best Practices, utilized throughout industry and government, to provide practical information about internal controls and encourage entities to develop, implement, and maintain IS policies and procedures that conform to current best practices. ALA recommends entity management conduct a formal risk assessment and rely on the results of the assessment to establish which best practices are appropriate for their environment. Since each situation is unique, management should utilize these guidelines as a self-monitoring tool to understand, assess, and mitigate potential information security risks to the entity's operations and assets. These best practices should be used as a resource to improve the design of existing internal controls and to implement new policies and procedures required by changes in risk to assets and operations. These best practices **are not all-inclusive**, nor are they a replacement for locally developed internal control policies and procedures. Optimally, control policies and procedures should be described in a written document and distributed to all employees since the application of these control procedures is every employee's responsibility. Successful internal controls depend on management and staff commitment to the protection of resources.

### **Internal Controls**

It is management's responsibility to ensure that the right controls are in place and that they are performing as intended. Therefore, internal controls are necessary for the effective and efficient operation of all levels of government. Internal controls are activities, policies, and procedures put in place to provide reasonable assurance that operations are achieving stated objectives. Properly designed and functioning controls help an entity adjust to ever-changing situations, changing demands, and varying threats and reduce the likelihood that significant errors or fraud will occur and remain undetected.

External auditors are not responsible for the design and effectiveness of internal controls. External auditors evaluate internal controls as part of their audit planning process. It is management's responsibility to ensure that proper internal controls are in place and perform as intended. A governing body's responsibility is to adopt written policies established by management to provide oversight, authorization, and ethical leadership. Additionally, management should be aware of the impact information technology (IT) has on the internal control framework and the challenges associated with a digital environment.

Information technology (IT) is an integrated part of state and local government financial operations and should be considered in conjunction with overall internal controls planning. IT internal controls affect many aspects of financial operations and should be implemented and reviewed in conjunction with each office, department, or functional area of responsibility.

To execute responsibilities effectively, management needs to understand how an integrated internal control framework should work. Standards for Internal Control in the Federal Government "Green Book" (which may be found at <https://www.gao.gov/products/D08784>) may also be adopted by state and local governmental entities.

### **Assessing Risk**

Each governmental entity has its own unique set of circumstances and risks that affect the design and implementation of internal controls. Before determining which controls should be implemented, entities should conduct a formal risk assessment to identify, analyze, and respond to risk potential, fraud, or errors occurring and remaining undetected.

After identifying risks, entities should implement controls to mitigate or reduce those risks. During the design process, the relationship between the cost of implementing controls and the benefits gained should be considered. When it is not practical or cost-effective to implement certain controls, other controls should be considered as ways to mitigate risk.

**Monitoring**

Identifying risks and implementing effective controls will not protect assets and produce reliable financial information if management and employees do not follow established procedures. Policies and procedures should be regularly reviewed to confirm that controls are being executed as designed. It is also important to consider feedback received from employees. Some control procedures may appear to be good solutions to an identified risk; however, once implemented, they may cause unforeseen problems or inefficiencies. At the same time, other activities may not appear to need controls, yet upon further analysis, some type of control may be warranted.

While this document is intended to establish minimum levels of compliance for auditing purposes, **it is not all-inclusive**. Because the IT environment is dynamic and ever-changing, these guidelines will be modified periodically to reflect industry changes as closely as possible. Guidelines have been generalized, where possible, to allow for broad application to various types and sizes of entities. Current IT trends, business processes, and cost considerations specific to the individual entity should be considered when applying these guidelines.

## INTRODUCTION

General and Application Controls are the two main types of control activities applicable to the IS environment. All IS controls throughout industry may be broadly categorized as such and are presented here as follows:

### **Part One: General Controls**

General Controls are established to provide reasonable assurance that the information technology in use by an entity operates as intended to produce properly authorized, reliable data when needed and that the entity is in compliance with applicable laws and regulations. Typically, General Controls include the following elements:

IS Management	(Best Practices 1-1)
Contract/Vendor Management	(Best Practices 1-2)
Network Security	(Best Practices 1-3)
Wireless Networking Security	(Best Practices 1-4)
Physical Access Security	(Best Practices 1-5)
Logical Access Security	(Best Practices 1-6)
Disaster Recovery/Business Continuity	(Best Practices 1-7)

### **Part Two: Application Controls**

Application Controls relate to the transactions and data produced by each computer-based automation system; they are, therefore, specific to each application. Application controls should be designed to ensure confidentiality, completeness, and accuracy of accounting records and the validity of entries made. Typically, Application Controls contain the following elements:

Data Input	(Best Practices 2-1)
Data Processing	(Best Practices 2-2)
Data Output	(Best Practices 2-3)
Application-Level General Controls	(Best Practices 2-4 through 2-7)

### **Part Three: Other Technology**

To manage risk with other technology, entities need to understand the technology and its associated risks. Risk can be managed by being technologically proficient and establishing practices related to governance. Other technology elements include:

Electronic Signatures and Digital Signatures	(Best Practices 3-1)
Payment Cards (Debit or Credit)	(Best Practices 4-1)
Bring Your Own Device (BYOD)	(Best Practices 5-1)
Electronic Banking	(Best Practices 6-1)

**Note:** Items underlined have been modified since the last published date of March 2020. Modification may include wording being reordered, changed, or added.

## BEST PRACTICES – GENERAL CONTROLS

### IS Management

- 1-1: **IS management must ensure adequate internal controls are in place to achieve the organization's established and developing goals and objectives.**
- 1-1.1: Develop an IS Department organizational chart, and update it as the environment changes.
- 1-1.2: Conduct a formal, organization-wide risk assessment utilizing a standard risk assessment framework to:
- Identify "what could go wrong" events that are a result of malicious or unintentional acts that can lead to negative consequences.
  - Determine the levels of cybersecurity risk and the probability of exposure or loss resulting from a security event or data breach of the organization.
  - Dedicate adequate resources to implement safeguards to mitigate risks.
  - Conduct a risk assessment that involves engaging employees at all levels to identify risks and the ways those risks affect organizational objectives.
- IS management should monitor and manage ongoing risks associated with the use of information technology, gain an understanding of current practices, and involve end users in addressing these risks and mitigating negative impacts.
- 1-1.3: Develop and maintain a formally-approved IS Operational Policy and Procedure Manual. The manual may be one or more documents and should be reviewed and updated annually and as the operating environment changes.
- 1-1.4: Ensure that duties of software developers and end users are distinctly segregated and clearly documented.
- 1-1.5: Develop policies and procedures addressing non-business use of entity equipment, facilities, and Internet services. Require employees to sign a computer use policy. This policy should clarify that information processed and stored on government computers is not considered private. Stipulate that computers and other government resources should not be used for personal purposes, policy may allow for incidental personal use; and outline penalties for misuse of equipment.
- 1-1.6: Obtain proper replacement insurance for production hardware/equipment.
- 1-1.7: Develop and document database and network backup processes to include data and record retention periods, how often data are backed up, and how copies of backups will be maintained.
- 1-1.8: Assign and communicate database *and* network backup responsibilities to designated staff.
- 1-1.9: Establish access to an environmentally safe, geographically separate, and secure off-site location to retain database and network backups.
- 1-1.10: Establish and formally document frequency of backups, ensuring that minimum industry standards (i.e., daily, weekly, monthly, annually) are met. Backups should occur daily for critical processes or at longer intervals based on the significance of the information and rate of changes.
- 1-1.11: Establish and formally document the method of backup:
- a. Full Back up: All files and software.
  - b. Incremental Backup: Files that have changed since the previous backup.
  - c. Differential Backup: All the data that have changed since the last full backup.
  - d. Mirror Backup: Straight copy of the selected folders and files at a given instant in time.
  - e. Maintain offline copies of backups in case a cyberattack renders online files unusable.

- 1-1.12: Ensure that the selected backup process and retention policy are in compliance with laws and regulations. Retention policy may include retaining periodic snapshots of all data backups in the event data becomes corrupted and contaminates the backup.
- 1-1.13: Routinely copy operating system software, application software, hardware configurations, and production information to backup media based on frequencies set by management. This applies to all systems (e.g., local area network [LAN] or wide area network [WAN] servers, client/server database servers, special-purpose computers, etc.).
- 1-1.14: Frequently test data backups to ensure data can be restored and is recoverable. Also, ensure backup settings are in compliance with entity policies.
- 1-1.15: Ensure administrator/super user accounts are limited and properly approved.
- 1-1.16: Develop a breach notification policy that requires individuals to be notified when there is a security breach of a system and confidential information is compromised. Officials and employees may not understand or be prepared to fulfill their legal obligations to notify affected individuals if confidential information is compromised, or is reasonably believed to have been compromised, and a security breach notification policy has not been established and adopted.
- 1-1.17: Regularly evaluate network availability and reliability and provide ongoing improvements to services and security as needed.
- 1-1.18: Establish and maintain a formal cybersecurity awareness program that ensures end users are aware of current and emerging cybersecurity threats, the importance of protecting assets, and the related risks.
- 1-1.19: Make employees aware of social engineering threats, which are attacks carried out by persuading authorized users or administrators to reveal confidential information to people they don't know over the phone or through emails from unknown parties. Employees should be trained to never open or download suspicious attachments.
- 1-1.20: Periodically host cybersecurity training for employees. Examples of relevant discussion and training topics include but are not limited to:
- a. Table top discussions on cybersecurity or security policy review.
  - b. Emerging cybersecurity threats.
  - c. Trending social engineering methods.
  - d. Limiting the types of sensitive information collected, transported, and stored.
  - e. Hazards of viruses, malware, ransomware, and spyware.
  - f. Accessing malicious web sites.
  - g. Downloading files from the Internet or simply clicking links.
  - h. Embedded email links and downloading attachments that may appear reasonably valid.
- 1-1.21: Establish a formal Security Incident Response plan. This document should outline the plan for responding to information security incidents. Due to the wide variety of security incidents that an organization could face and the rapid advancement of threats, this document should be designed to provide guidance for responding to security incidents; determining the scope and risk of security events; and ensuring an appropriate response to information security incidents, including communication of incidents to the appropriate parties. For information on developing a security incident plan, refer to NIST 800-61 revision 2.
- 1-1.22: Arkansas Act 260 of the 2021 Regular Session states that a public entity, or contractual provider of a public entity, must disclose, in writing, an initial report of the known facts of the security incident to the Legislative Auditor within five business days after learning of the security incident. Additionally, the public entity shall provide regular updates. A report, update, notification, or list created or maintained under this section is exempt from the Freedom of Information Act (FOIA) as a security function under Ark. Code Ann §25-19-105(b)(11).  
A Security Incident Reporting form can found at [www. Arklegaudit.gov](http://www.Arklegaudit.gov)

**Contract/Vendor Management**

- 1-2: Outsourced IT vendors must adhere to laws, regulations, and the organization's policies and procedures.**
- 1-2.1: Review all contract(s) prior to approval to ensure compliance with Ark. Code Ann. § 10-4-424 granting Arkansas Legislative Audit access and authority to audit computer applications supplied by vendors. Additionally, ensure business processes and any applicable legal requirements are adequately addressed and documented.
  - 1-2.2: Establish a service level agreement for the maintenance and support of each contract, specifically defining performance expectations for each party.
  - 1-2.3: Confirm that the vendor is a going concern. Ensure that provisions are made to hold application source code in escrow.
  - 1-2.4: Limit vendor access to entity resources. Log access, monitor vendor activity, and review for appropriateness.
  - 1-2.5: Vendors of cloud computing services or other types of hosted solutions should comply with ALA IS Best Practices and the State of Arkansas information security standards through service level agreements and contracts and provide Service Organization Control Report (SOC), if available.
  - 1-2.6: Prior to transferring data or application services to or from a cloud computing environment, it is vital to understand applicable laws, regulations, duties, and responsibilities imposed on both management and the vendor (e.g., data ownership, data stewardship, data retention, data protection, jurisdictional issues, disclosures).

**Network Security**

- 1-3: Network security ensures that network architecture includes controls over hardware, software, and data.**
- 1-3.1: Establish a network security policy that is clearly documented and formally approved. Ensure that the policy describes potential security risks (identified in section 1-1.2) and clearly communicates risks to users. Policies should be kept current through regular review and updated to address emerging security threats.
  - 1-3.2: Ensure that network devices (e.g., firewalls, routers, etc.) are appropriately placed and configured to adequately protect both internal and external access to devices, applications, and services.
  - 1-3.3: Limit physical and logical access to network devices (e.g., firewalls, routers, servers, etc.), and ensure that changes to these devices are properly managed. Establish policies for proper tracking, authorization, testing, and approval of changes.
  - 1-3.4: Obtain anti-virus, anti-malware, and advanced persistent threat software and provide for their continued use. Ensure programs are set for automatic updates, and scan devices on an established schedule. Scan any media that is inserted into hardware (e.g., USB and external hard drives). Ensure that the network security policy covers the use of external devices (e.g., USB drives, Smart Devices, etc.).
  - 1-3.5: Establish a routine schedule for the performance of network vulnerability scanning, including review of critical risks identified and mitigated.
  - 1-3.6: Develop remote access authentication policies and procedures and encryption protocols (considering the risks identified above). Consider the use of virtual private networking (VPN) technology. Include procedures for usage restrictions, configuration/connection requirements, implementation guidance for each type of remote access allowed, and monitoring and handling of questionable activity.
  - 1-3.7: Establish encryption methods for sensitive data transmitted externally and across the network, including procedures for keeping protocols current and effective.

- 1-3.8: Ensure that all IT administration duties outsourced to a vendor are evaluated for associated risks. Vendor access to your network should be restricted only to files and applications needed to perform the vendor's duties. The contract with the vendor should provide that the vendor agrees to perform services in compliance with the entity's security policies and legal requirements.
- 1-3.9: Ensure operating systems are set to automatic updates. Turning off or rebooting computers regularly supports the installation of updates and refreshes system resources. Updates and patches for server operating systems are critical and should be reviewed and updated on a regular schedule.
- 1-3.10: Enable and monitor network audit logs to identify potential misuse of system resources or information. Logging activities shall include regular monitoring of system access to prevent attempts at unauthorized access and confirm access control systems are effective.
- 1-3.11: Consider a defense-in-depth methodology by implementing multiple layers of security to protect data, networks, and systems. Successive layers of defense mechanisms can reduce the risk of a successful attack by someone with malicious intent. A combination of controls ensures that systems do not become overly dependent on any one control or layer of security and provides added protection in case a layer of security fails to function properly or does not prevent or stop a threat to your data or systems.

### **Wireless Networking Security**

- 1-4: Wireless security provides a secure network connection to prevent harm to the network and inappropriate access to resources.**
- 1-4.1: Establish security policies and procedures that ensure wireless usage restrictions, configuration, connection, and password requirements, as well as implementation guidance for wireless access, are appropriate. Policies and procedures should identify information resources that should and should not be available to users and the types of communications that are prohibited, especially when sensitive and/or critical data are involved Address the use of wireless technology to ensure compliance with IEEE 802.11i Security Standard. Document policies to include the risks (identified above) associated with this technology, and ensure that policies are clearly communicated to users.
- 1-4.2: Ensure that the Administrator credentials and Service Set Identifier (SSID) are changed from the default value and a naming convention that excludes all identifiable information about the entity and the technology in use. The SSID name should be communicated to entity employees but not publicly broadcasted.
- 1-4.3: Establish routine application of security patches for wireless access devices, ensuring that upgrades are applied as released.
- 1-4.4: Maintain an inventory of authorized access points (APs), and periodically conduct site inspections to determine that no unauthorized APs are in use.
- 1-4.5: Establish physical security controls over wireless network devices to prevent unauthorized access, such that all devices are secured with locking mechanisms or kept in a restricted area where access is granted to authorized personnel only.
- 1-4.6: Review perimeter (external) security established in section 1-3.2, and ensure that the risks identified for wireless networking (see section 1-4.1) are adequately addressed in the placement and configuration of network devices.
- 1-4.7: Ensure that entity-approved guest access only allows Internet browsing, require guest users to agree to terms of use, and state that user activity on the wireless network is monitored.

**Physical Access Security****1-5: Physical access security controls are implemented to protect system resources and the facilities used to support their operation.**

- 1-5.1: Develop a Physical Access Security Policy based on criticality of network devices and their physical placement. The policy should include access key/keycard management; authorization procedures for visitors, new employees, contractors, etc.; and provisions for removing access for terminated employees, consultants, security professionals, etc.
- 1-5.2: Ensure that the server room and data processing areas are adequately restricted to authorized personnel and located in a discreet area inaccessible to outsiders.
- 1-5.3: Implement the following physical security controls:
  - a. Entrance and exit controls.
  - b. Visitor escorting.
  - c. Vendor escorting.
  - d. Logging of entry and exit dates and times.
  - e. Surveillance cameras.
- 1-5.4: Implement the following environmental controls, where possible:
  - a. Fire suppression system.
  - b. Smoke detector.
  - c. Temperature/Humidity detector.
  - d. Adequate ventilation and air conditioning systems
  - e. Uninterruptible power supply (UPS).
  - f. Emergency power generator.
  - g. Raised floor.
  - h. Water detection.
- 1-5.5: Develop specific procedures to ensure that terminated employee access is immediately disabled and to control issuance/revocation of access keys/keycards. Conduct an annual key/keycard inventory to identify those with physical access to facilities and to determine that terminated employee access has been properly removed. If unauthorized access exists, rekey doors, and change security codes to reestablish proper authentication.
- 1-5.6: Develop a monitoring system for physical access, ensuring that access violations are detected and that both violations and corrective actions are documented.
- 1-5.7: Ensure that any data storage device, workstations, or other mobile equipment no longer in operation are reformatted/wiped based on current data sanitization methodologies or the hard drive physically destroyed to minimize the risk of exposure. Any paper documents containing personally identifiable information that are no longer in use should be shredded to minimize the risk of exposure.

**Logical Access Security****1-6: Logical access security controls defend IT systems and data by verifying and validating the identity of authorized users.**

- 1-6.1: Develop and document a Logical Access Security Policy, based on identified risk areas (identified in section 1-1.2), to protect high-risk system resources. The policy should establish user identification, authentication, and account control mechanisms as well as protect system administration tools and utilities from unauthorized access. Include provisions for monitoring of access security best practices to ensure policies remain current.
- 1-6.2: Establish user security access on the principle of least privilege, allowing only authorized access for users (or processes acting on behalf of users) that are necessary to accomplish assigned duties in accordance with the entity's business process and functions.



- 1-6.3: Establish security administration procedures that ensure proper authorization of changes and additions to user accounts. Include periodic review of user access security by resource owners (e.g., elected officials, directors, or their designees). Investigate questionable authorizations. Access to security administration and other sensitive system resources should be limited to only users with a documented business purpose; all unnecessary and unauthorized accounts (e.g., system/admin default, guest, terminated users, etc.) should be investigated to be removed or disabled.
- 1-6.4: Ensure that, at a minimum, the following password parameters for logical security controls are required:
- a. User identification and password are required.
  - b. Users are systematically forced to change passwords on a periodic, recurring basis not more than 90 days.
  - c. Passwords are systematically required to be composed of a mixture of alpha and numeric characters and a minimum of 8 characters, with no repeating characters.
  - d. New users are forced by the system to change their initially assigned password.
  - e. A password history file systematically prevents reuse of at least the last five passwords.
  - f. The user account is locked after three unsuccessful logon attempts and remains locked until reset by an administrator or in a reasonable period of time.
  - g. Computer sessions timeout after a reasonable period of no activity, requiring user authentication to restore session.
  - h. Passwords are not revealed to anyone, including management, help desk personnel, security administrators, family members, or co-workers.
  - i. Management establishes and monitors user Security Event Log.

Note 1: Most operating systems and applications have configurable password settings that systematically require passwords to conform to the requirements listed above. Password settings are not considered enforced unless systematically required.

Note 2: Any deviations from established password best practices are evaluated on a case-by-case basis.

- 1-6.5: Ensure that Security Event Logs are reviewed for violations. Document identified violations and associated corrective actions as a part of incident handling procedures.
- 1-6.6: Other technologies for user identification and authentication, such as biometrics (e.g., fingerprint verification, signature verification) and use of hardware tokens (e.g., smart cards) are available and should be considered, if appropriate.
- 1-6.7: Systems using both user ID/password and ID/biometrics should enforce the same password parameters described at 1-6.4.
- 1-6.8: Restrict administrator privileges from running on workstations. Running in administrator mode increases exposure to security threats, which can lead to the entire network being compromised; administrative mode should be disabled by default or, at a minimum, protected with strong credentials and reserved for only when necessary to perform administrator functions.

**Disaster Recovery/Business Continuity**

**1-7: Disaster recovery/business continuity planning refers to the plans, policies, procedures and technical measures that enable the recovery of IT operations after an unexpected incident. Organizations should develop a Disaster Recovery and Business Continuity plan so that the effects of a disaster will be minimized. Adequate planning addresses how to maintain their status as a going concern: keeping critical functions operating in the event of disruptions, both large and small.**

- 1-7.1: Document and approve a Disaster Recovery and Business Continuity Plan that, at a minimum, achieves the following:
- a. Ensures that disaster recovery roles and responsibilities are clearly defined.
  - b. Includes detailed technical instructions and procedures for restoring mission critical processes and systems (i.e., networking, operating system, and critical applications).
  - c. Identifies the alternate work/office location and the offsite backup storage facility.
  - d. Includes necessary contact information for employees, vendors, etc.
  - e. Ensures manual operating procedures and resources are in place in the event IT operations are unavailable.
  - f. Includes application-level contingency planning (established in section 2.7).
  - g. Covers all systems and operational areas.
  - h. Has been approved by appropriate governance.
  - i. Includes details concerning how the plan will be periodically tested.
- 1-7.2: Ensure that a copy of the Disaster Recovery/Business Continuity Plan is stored at the off-site backup location. A copy should also be available to management and employees in either electronic or hardcopy form.
- 1-7.3: Ensure that the Disaster Recovery/Business Continuity Plan is relevant, addresses current risk, and is reviewed and updated annually and as conditions and risk change.
- 1-7.4: At least annually, conduct and document rotating test scenarios of the Disaster Recovery/Business Continuity Plan to the fullest extent possible. Document in sufficient detail and evaluate test results, updating the plan as necessary.

Note: Effective July 1, 2021, management of the Arkansas Continuity of Operations Program (ACOOP) will transfer from the Department of Transformation and Shared Services (TSS) Division of Information Services (DIS) to the Arkansas Division of Emergency Management (ADEM) due to the recent approval of Act 70 of 2021.

Several formats, guidance documents, and other assistance are available for writing and maintaining continuity plans. One example is the FEMA Continuity Plan Template and Instructions for Non-Federal Entities found at this at this link: [https://www.fema.gov/pdf/about/org/ncp/coop/continuity\\_plan\\_non\\_federal.pdf](https://www.fema.gov/pdf/about/org/ncp/coop/continuity_plan_non_federal.pdf) (If link is not clickable, copy and paste into a web browser)

## BEST PRACTICES – APPLICATION CONTROLS

### Data Input

**2-1: Data input controls are necessary to validate the integrity of data entered into an application.**

2-1.1: Ensure that a properly designed database has been established to reduce redundancies and ensure effective transaction processing. Poor data quality may lead to failure of system controls, process inefficiencies, and/or inaccurate reporting.

[Example: The County Financial Manual may supply the data structure incorporated into the automated system and followed by users who classify data and perform data entry.]

Manual and/or automated controls should be incorporated into the data structure to prevent the following:

- a. Recording or processing of duplicate transactions.
- b. Unpopulated data fields.
- c. Data formatting inconsistencies.
- d. Improper coding to departments, business units, or accounts.

2-1.2: Establish input approval and review policies and procedures. Management should have procedures to identify and correct any errors that occur during the data entry process, providing reasonable assurance that errors and irregularities are detected, reported, and corrected:

- a. Ensure that data input is done in a controlled manner (e.g., proper authorization controls exist, both systematic and manual).
- b. Ensure that all inputs have been processed and accounted for.
- c. Ensure checks and receipts are systematically pre-numbered and sequenced.
- d. Ensure an audit trail is available and enabled with sufficient detail to identify the transactions and events as they happen by tracking transactions from their source.
- e. Identify and investigate missing or unaccounted for source documents or input transactions.
- f. Periodically review audit logs to evaluate the extent and status of data errors and changes.
- g. Require exception resolution monthly and ensure all exceptions are resolved before year-end closing.

### Data Processing

**2-2: Data processing controls provide an automated means to ensure processing is complete, accurate, and authorized.**

2-2.1: Ensure that processing errors are identified, logged, and resolved and that incorrect information is identified, rejected, and corrected for subsequent processing. Edit reports should be produced by the system at critical processing stages to provide a means to trace transactions from beginning to end. (e.g., check runs, transaction posting, etc.), and corrections should be required before associated processes are completed.

- a. Database transaction or table logs should be available to compare to source documents.
- b. Processing logs should be available to identify incompletely or incorrectly processed transactions.
- c. Transaction processing overrides should be tracked and monitored.
- d. Application should perform edit and validation checks during data processing.
- e. Warning and error messages should be produced during all processing phases.
- f. Transactions with errors should be rejected or suspended from processing until the error is corrected.

- 2-2.2: Management should have policies and procedures in place to identify and correct any errors that occur during the data entry process. These policies and procedures should reasonably assure that errors and irregularities are detected, reported, and corrected timely:
- a. Ensure that data input controls are in place\_(e.g., proper authorization controls exist, both systematic and manual).
  - b. Periodically review user error logs to evaluate the extent and status of data errors.
  - c. Ensure that all data inputs have been processed and accounted for.
  - d. Investigate missing source documents or data transactions.
  - e. Require data exception resolution before year-end closing.
- 2-2.3: Establish procedures to ensure that periodic and timely reconciliations and error correction are performed between the subsidiary and general ledgers.
- 2-2.4: Establish monitoring procedures to include:
- a. Reconciling data inputs to data processed.
  - b. Maintaining a processing log and review for unusual or unauthorized activity.
  - c. Monitoring all overrides to transactions.
- 2-2.5: Ensure that the software/application has the capability to prevent alteration of data when they are transferred from one process to another.
- 2-2.6: Ensure that the application has the capability to resume processing at the point of interruption.

### **Data Output**

**2-3: Data output controls ensure the integrity and reliability of output information as well as the accuracy and timely distribution of all output produced.**

- 2-3.1: Develop procedures for system output and reporting to ensure:
- a. Consistency of content, format, and availability with end users' need.
  - b. Sensitivity and confidentiality of data.
  - c. Appropriate user access to output data.
- 2-3.2: Establish procedures to enable business process monitoring and tracking of results. Review system-generated reports to ensure the integrity of production data and transaction processing. Review should be performed timely and periodically.
- 2-3.3: Establish procedures to ensure that output complies with applicable laws and regulations and that legally required reporting is complete and accurate. Review system-generated reports to assure the integrity of production data and transaction processing. Reviews should be performed timely and periodically.

**Application-Level General Controls*****Application Security Management***

**2-4: Application security management identifies criteria and techniques associated with the design and use of applications that can be modified to respond to the entity's changing needs.**

2-4.1: Identify transactions for financial processes and sub-processes that application security policies should address. Develop a security policy for financial applications that achieves:

- a. Establishes security administration procedures.
- b. Develop an application access structure based on the principle of least privilege.  
See 1-6.2
- c. Outlines ongoing security role management (including monitoring and maintenance procedures).
- d. Addresses the roles, responsibilities and monitoring of third party vendors.
- e. Ensures that access security updates, additions, and deletions are properly authorized and supported by a documented business purpose.
- f. Periodically verifies that only authorized users have access and that their access privileges are appropriate for their job functions.
- g. Addresses encryption of application data (including authentication credentials), both stored and transmitted.
- h. Establishes procedures for documenting security and verification of data for both internal and external system interfaces.
- i. Coordinates with overall network security policy.
- j. Analyzes application deficiencies and document corrective actions taken.

2-4.2: Ensure that application access controls (e.g., unique user ID, password configuration, etc.) align with network access security policies established in section 1-6.

2-4.3: Ensure that public access to applications is controlled by:

- a. Restricting access to production systems and data.
- b. Distinct security policy covering public access workstations that appropriately restricts access.

2-4.4: Establish procedures for auditing and monitoring application security, including the following:

- a. Identification and logging of security exceptions and violations.
- b. Setup of logging and other parameters to notify administrators of security violations as they occur.
- c. Periodic review of exception reports and recommended corrective action by management and security administrators.

2-4.5: Ensure that physical access to application resources has been secured and addressed by security policies as outlined in section 1-5.

***Application Configuration Management***

**2-5: Configuration management establishes and maintains the integrity of the application throughout its life cycle.**

2-5.1: Establish controls over programming to ensure that changes to application functionality in production are authorized and appropriate and that unauthorized changes are detected and reported promptly.

**Segregation of Duties**

**2-6: Segregation of duties is a basic internal control that attempts to ensure that no single individual has the authority to execute two or more conflicting transactions.**

- 2-6.1: Ensure that management has identified and documented incompatible activities and transactions based on identified business process and application security risks. Ensure that application security policies address these areas and that users are systematically prevented from executing incompatible transactions. See 1-6.2.
- 2-6.2: Small governments with limited staff and resources have a reduced capacity to segregate duties. Therefore, it may not be practical or cost-effective to segregate conflicting duties in these cases. Compensating controls should be designed to reduce the risk of error or fraud not being detected. Confirm that user access to transactions or activities that have segregation of duties conflicts are appropriately controlled.
- a. Access to incompatible activities is assigned only when supported by a business need.
  - b. User access authorizations are periodically reviewed by management for segregation of duties conflicts, considering position, process changes, and updating access to current job assignments.
  - c. Users with segregation of duties conflicts are documented, and their activity is monitored and reviewed periodically via transaction and auditlogs.
  - d. Management retains documentation that segregation of duties risk has been mitigated through effective compensating controls.
  - e. A segregation of duties grid is developed by using the “roles and responsibilities” or security master report function within software applications.

**Application Contingency Planning**

**2-7: Application contingency planning provides procedures and capabilities for recovering a major application or general support system. See Disaster Recovery/Business Continuity at 1-7.**

- 2-7.1: Determine mission-critical functions performed by the financial applications, documenting associated key data and programs. Identify the impacts of automated process disruption and maximum allowable outage times for each application, and establish recovery time objectives.
- 2-7.2: Set backup retention policy for each application based on recovery time objectives. Ensure that backup intervals support necessary restoration periods. Current application programs and data should be copied according to this policy and securely stored at a geographically distant off-site location.
- 2-7.3: Establish manual procedures for continuing operations during outage times for the critical functions identified in section 2-7.1. Incorporate the application-level contingency planning and procedures (including backup policy) into the organization’s Disaster Recovery/Business Continuity Plan.
- 2-7.4: Provide for periodic testing of the application contingency planning. Include documentation of test scenario results and corrective actions (including resulting changes to the plan) to be incorporated into organization-wide Disaster Recovery/Business Continuity Plan testing.

## **BEST PRACTICES – OTHER TECHNOLOGY**

### **Electronic Signatures and Digital Signatures**

#### **3-1: Electronic confirmation of signatures is used to authenticate the content of a document.**

- 3-1.1: If electronic signatures or digital signatures are used, management must understand the technology and associated risks. Develop and implement controls to address risks identified, and comply with applicable laws and regulations.
- 3-1.2: Resources include the following: Electronic Signatures in Global and National Commerce Act (15 USC § 7001); Arkansas Electronic Records and Signatures Act (Ark. Code Ann. § 25-31-101); Uniform Electronic Transactions Act or UETA (Ark. Code Ann. § 25-32-101); and Arkansas Department of Information Systems Electronic Signature Standard SS-70-011.
- 3-1.3: Ensure that implementation of the electronic equivalent of a written signature, which can be recognized as having the same legal status as a written signature, provides adequate security. A digitized written signature can easily be copied from one electronic document to another, with no way to determine whether it is legitimate. Electronic signatures, on the other hand, are unique to the message being signed and will not verify if they are copied to another document.
- 3-1.4: A software application that creates a signature on checks and affixes the signature to the check should have an associated access control mechanism. The access control mechanism should only be known by the check custodian and signatory.
- 3-1.5: Electronic signature disks or any other forms of electronic, digitized, or facsimile signatures should be in a secured location under the control of the signatory. The use of signature disks or other electronic, digitized or facsimile signatures should only be used under the direct approval of the official (or deputy) whose signature is on the disk.

### **Payment Cards (Debit or Credit)**

#### **4-1: Payment cards enable the owner (cardholder) to make a payment by electronic fundtransfer.**

- 4-1.1: If payment cards are accepted for payment, management must understand the technology and associated risks; develop and implement controls to address risks identified; and comply with applicable laws, regulations, and industry standards.
- 4-1.2: Develop and maintain written comprehensive policies and procedures that cover the process by which payment cards are accepted and payment card data are processed. Policies and procedures should include but are not limited to:
  - a. Segregation of duties.
  - b. Physical security.
  - c. Storage, transmission, and disposal of payment card information.
  - d. Employee criminal background checks.
  - e. Technology security policies and procedures.
  - f. Incident response plan.
- 4-1.3: Adherence to industry standards include credit card brands' compliance programs and the Payment Card Industry (PCI) Data Security Standards (DSS).

**Bring Your Own Device (BYOD)**

**5-1: Bring Your Own Device (BYOD) is the use of personal electronic devices to access entity systems, data, and resources. Such devices include, but are not limited to, smartphones, tablets, laptops, and similar technologies.**

- 5-1.1: If BYOD is allowed, management must understand the technology and associated risks, develop and implement controls to address risks identified, and comply with applicable laws and regulations.
- 5-1.2: Ensure use of the device security features, such as a PIN, password/passphrase, and automatic lock to help protect the device when not in use.
- 5-1.3: Keep the device software up to date. Devices should be set to update automatically.
- 5-1.4: Activate and use encryption services and anti-virus protection if your device features such services. Install and configure tracking and/or wiping services, such as Apple's "Find My iPhone," Android's "Where's My Droid," or Windows' "Find My Phone," if the device has this feature.
- 5-1.5: Remove promptly after use any entity information stored on your device, including deleting copies of attachments to emails, such as documents, spreadsheets, and data sets.
- 5-1.6: Remove all entity information from your device and return it to the manufacturer's settings before you sell, exchange, or dispose of your device.
- 5-1.7: Promptly report to entity management if your device is lost or stolen or its security is compromised.
- 5-1.8: Establish a comprehensive BYOD policy that provides standards and rules of behavior for the use of personally-owned devices. This policy must be adhered to in order to access organizational resources.

**Electronic Banking, Electronic Commerce and other Electronic Transfer of funds**

**6-1 : Electronic banking and other electronic funds transfer (EFT) enables bank customers to perform account management and financial transactions over the Internet that directly, or indirectly, affect funds held by the bank. Despite security controls, there is no absolute way to guarantee the safety of online electronic transactions. Entities should comply with applicable laws and research and understand the risks involved before commencing online electronic transactions.**

- 6-1.1: Develop comprehensive written policies and procedures for all electronic transactions (e-transactions), online banking, and EFT activities. Policies and procedures should include statutory and other legal requirements and responsibilities as well as, but not limited to:
  - a. Documentation of proper segregation of functions (i.e., initiator cannot be an approver, etc.).
  - b. Online banking and EFT activities utilized.
  - c. Personnel who initiate, approve, transmit, record, review, or reconcile e-transactions.
  - d. Personnel who approve e-transactions.
  - e. Personnel who transmit e-transactions.
  - f. Personnel who record e-transactions.
  - g. Personnel who review and reconcile e-transactions.
  - h. Prompt removal or changes to access security for local and online access.
  - i. Properly maintain all documentation to support transactions for historical review and audit purposes.
- 6-1.2: Establish a dedicated "hardened" computer with only application/services loaded that are necessary to perform online banking transactions. This computer should not be used for any other purpose. In cases where a dedicated computer is not available, entities must be able to reduce online banking risks to an acceptable level through a combination of other controls.
- 6-1.3: Install antivirus, anti-spyware, malware and adware detection software that is current and set to automatically update.



- 6-1.4: Ensure all updates and patches to operating systems, and hardware drivers are applied timely.
- 6-1.5: Install firewalls and intrusion detection and prevention systems with continuous monitoring. Any unauthorized and/or suspicious behavior or traffic should be investigated and, if necessary, blocked using access control lists in conjunction with a firewall.
- 6-1.6: Employ multi-factor authentication, if possible. Require unique login ids and complex passwords, and ensure computers and browsers are configured to not save passwords. Keep passwords confidential.
- 6-1.7: Limit Internet access to only business-related programs. Frequently delete browsing history, temporary Internet files, and cookies. In the event the system is compromised, minimal information would be captured by a hacker or malware program.
- 6-1.8: Check that the session is secure (minimum 128-bit SSL encryption) before undertaking any online banking.
- 6-1.9: Monitor and reconcile bank accounts daily (when feasible).
- 6-1.10: Periodically (daily, weekly, monthly) review accounts for unauthorized or suspicious activity, and report immediately.
- 6-1.11: Ensure written agreements with banks and/or other payment solutions are reviewed by legal counsel.
- 6-1.12: Ensure written agreements with banks provide appropriate controls for all electronic fund or wire transfers.
- 6-1.13: Ensure computer is disconnected from the Internet by unplugging the Ethernet/DSL cable when not in use.
- 6-1.14: Employ dual-authorization of transactions, enforced by bank security where possible (requiring at least two user accounts to submit and approve electronic transactions).
- 6-1.15: Disallow online account management functions (such as adding users or modifying user security). Account changes should be conducted in person, or at least in writing, with the bank.
- 6-1.16: When possible, implement use of out-of-band transaction verification (such as text message or other security message to an approver with the entity). Take advantage of other system alerts including:
  - a. Balance alerts.
  - b. Transfer alerts.
  - c. Password change alerts.
  - d. Login failure alerts.
- 6-1.17: Ensure that blank check stock, signature stamps, and facsimile signatures are properly safeguarded with inventory control.
- 6-1.18: Use a clearing bank account when paying electronically rather than paying directly from primary account.
- 6-1.19: Establish transaction and daily limits to lower loss potential.
- 6-1.20: Consider the cost benefit of obtaining cybersecurity and data breach insurance.
- 6-1.21: Restrict browser(s) to sites necessary for EFT.
- 6-1.22: Ensure that users performing banking transactions use only non-administrative user accounts.

- 6-1.23: Implement use of fraud controls, when possible and feasible, to ensure that the bank only processes authorized transactions, Features to consider include:
- a. Positive Pay.
  - b. ACH Positive Pay.
  - c. ACH Debit Block and Debit Filters.
  - d. Direct Deposit.
- 6-1.24: Implement use of processing calendar with the bank, if possible, to ensure the bank only processes transactions on pre-determined days throughout the year.
- 6-1.25: Comply with all security requirements outlined in the service level agreement with the bank and all other prudent security measures.
- 6-1.26: Allow electronic delivery of statements and account information. Ensure any statements or documents containing account information are properly maintained.
- 6-1.27: Never share any confidential information, tax IDs, Social Security numbers, or account numbers via email.