



38th Annual Conference &  
Membership Meeting  
September 17-19, 2025 – Columbus, OH



# *Internal Controls & Segregation of Duties Review*

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Presented By: Amanda Copeland

# Agenda

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- Explanation of Internal Controls and Segregated Duties
- Five Essential Elements
- Attributes, Red Flags and Things to Avoid
- Examples and Best Practices
- Key Takeaways

# Internal Controls – What are they?

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- Internal controls deter fraud, mitigate risk and increase accountability
- They involve processes and procedures designed to help a government achieve its objectives related to operations, reporting, and compliance
- Internal controls ensure that a government's financial activities are conducted efficiently, effectively, and in compliance with applicable laws and regulations
- Internal controls can exist in various environments
- Generally, a higher number of internal controls can create a safer environment
  - However, having too many internal controls can hinder the financial process

# Segregated Duties – What are they?

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- This fundamental internal control is designed to deter fraud, errors, and abuse of power by ensuring that no single individual has complete authority over all aspects of a crucial process
- It functions as a type of internal control where multiple people collectively oversee responsibilities within the financial department
- Important tasks that need monitoring include maintaining records, protecting assets, processing payments, and conducting reconciliations
- By allocating these responsibilities among different individuals, the government enhances transparency and accountability in handling public resources

# Internal Controls – What do they achieve?

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- Internal Controls Increase:
  - Transparency
  - Communication
  - Quality of information
  - Accountability
  - Protection
  - Compliance
- Internal Controls Decrease:
  - Likelihood of fraud
  - Lack of awareness of processes
  - Inaccurate reporting
  - Audit findings and comments
  - Mismanagement of assets
  - Non-compliance

# Internal Control Attributes

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- Internal Controls should:
  - Establish oversight and transparency from multiple perspectives
  - Deter fraudulent activities and prevent individuals from exploiting the government
  - Be documented in the form of a policy or manual maintained by the fiscal division
- Internal Controls should not:
  - Be dismissed or taken lightly
  - Be overly complicated to the point of hindering government operations
  - Be applied sporadically or inconsistently

# Internal Control Red Flags

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- Unreconciled bank accounts for long time periods
- Untimely or summarized financial reports
- Lack of segregation of duties
- Lack of a budget
- Governing body meets infrequently
- Numerous audit citations from year-to-year
- Verbal answers to questions with no support

# Five Essential Elements

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Five essential elements of a comprehensive internal control framework:

- A favorable control environment
- Ongoing risk assessment
- Design, implementation, and maintenance of effective control activities
- Effective information and communication
- Ongoing monitoring of the effectiveness of internal control



# Essential Element #1

## Control Environment

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- This is the culture within the government
- Auditors look at this closely at the beginning of the audit
- Primarily the responsibility of management and governing body
- Strong environments possess these characteristics:
  - Clear organizational structure with assignment authority and responsibility
  - Management has commitment to integrity and ethical values
  - Competent staff with adequate training
  - Proper segregation of duties
  - Documented policies and procedures

# Essential Element #2

## Risk Assessment

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- This is an “active” and “ongoing” process
- How do you assess risk in a government?
  - Identify high risk areas
    - High volume of cash transactions
    - Departments with minimal staffing
    - New compliance requirements
  - Consider the possibility of fraud
  - Practice professional skepticism
  - Consider external risks

# Essential Element #3

## Implement Control Activities

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- This refers to the “measures” implemented to lessen risk of exposure
- The cost of a control should “never” exceed the benefit
- For control activities to be effective, they must:
  - Be documented (in policies and procedures)
  - Be conveyed clearly
  - Be sensible
  - Be consistently enforced
  - Utilize technology appropriately

# Essential Element #4

## Information & Communication

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- This element is an integral part of the functioning of the other four elements
- Should include three elements:
  - Availability of relevant, high-quality information
    - Data converted into a usable form
  - Internal communication to ensure employees receive the information needed to understand and perform their control-related duties
    - Multidirectional communication
  - External communication

# Essential Element #5

## Monitoring

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- This involves routine, ongoing evaluation of your controls
- Proper monitoring should include:
  - Periodic evaluation of internal controls
  - The effectiveness of internal controls is communicated after being evaluated
  - Vulnerabilities are addressed
  - Individuals are held accountable

# Internal Control Example Policies and Procedures

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Why are they important?

- Documents processes
- Outlines authority
- Assists with compliance
- Establishes guidelines for accountability
- Continuity with employee turnover

Should be adequate to ensure that:

- All transactions are properly authorized
- Duties are segregated
- Records are properly designed and maintained
- Access to records is controlled

# Internal Control Example

## Policies and Procedures cont.

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- Essential conditions to ensure control policies and procedures are effective:
  - Must be complete
  - Must be up-to-date
  - Must be available
  - Must be enforced
  - Must be approved by top officials

# Internal Control Example

## Policies and Procedures cont.

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- How should the “governing body” assist with developing policies and procedures:
  - Become familiar with the policies
  - Be aware of the changing compliance requirements
    - Federal and State
    - Uniform Guidance
  - Ask questions if unclear



# Internal Control Example

## Governing Body

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- Governing body – this is who has ultimate decision-making responsibility
- What can you do?
  - Top-down approach
  - Review and approve policy
  - Divulge all business relationships
  - Review **detailed** monthly financial reports
  - Be familiar with your vendors
  - Use a budget and stick to it
  - Request an exit conference

# Internal Control Example

## Segregation of Duties

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- Lack of segregation of duties = big red flag for audit
- Common issue with small government
  - Governing body must be more involved
- Fraud triangle – opportunity, motivation, justification
- One person should not be responsible for all financial activity:
  - Use separate people to receive and record cash, prepare and make deposits, issue checks and reconcile bank accounts
  - If limited number of individuals – a second person should review all financial transactions
- Rotate tasks periodically, if able

# Internal Control Example Accounting System

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- Avoid manual systems
- Provide reports to the governing body at least monthly
- Increases accountability and assists with oversight
- Must be DETAILED; avoid SUMMARIZED information
- Must be kept up-to-date
- Use to monitor budget vs. actual
- Perform trend analysis

# Internal Control Example

## Compliance with Laws & Regulations

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- Ohio Revised Code, Ohio Administrative Code, Uniform Guidance
- Oftentimes, this is overlooked by smaller governments
- Key compliance areas:
  - Budgetary compliance
    - Governing body approval
  - Fund balances
  - PO compliance
  - Timely deposit
  - Recording receipts/expenditures in the correct funds

# Internal Control Example Compliance with Laws & Regulations cont.

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Reports, published articles, guides, and bulletins

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Interesting facts about the history of Ohio

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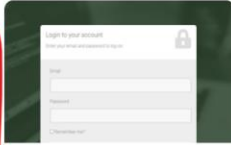
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## Reference Materials

The Auditor of State's Office offers local governments and IPA firms a full range of professional consulting, accounting, and financial reporting resources.

**OneOhio Receivable**

[OneOhio Opioid Settlement Receivable Calculation \(xlsx\)](#)

Last updated 7-29-2024

**Client Reference Material(s)**

[Responsibilities of Those Charged with Governance \(pdf\)](#)

### Divisions

For questions, contact the relevant division listed below, or fill out the [General Inquiry Form](#)

**Local Government Services (LGS)**

[Local Government Services](#)

800-345-2519

[Contact LGS Form](#)

**Independent Public Accountants (IPA)**

[IPA Resources](#)

[Reporting Materials](#)

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**Uniform Accounting Network (UAN)**

IPA firms can check the progress of a report: [UAN Filing Status](#) →

**UAN Training:**

[Watch the Audit Workbench Software Webinar](#)

**Reference Materials**

**Clients & IPA Firms**

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- [GASB FAQs](#)
- [Library FAQs and Program Codes](#)
- [Other Accounting FAQs](#)

[Financial Statement Shells & Notes](#)

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**Ohio Compliance Manuals**

- [Single Audit Practice Aids & Report Shells](#)
- [Federal Award Compliance Control Records \(FACCR\)](#)
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**Audit Report Shells**

- [FYE 12/31/21 & Subseq](#)
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- [Development of Policies and Procedures](#)
- [Summarized Annual Financial Reports](#)
- [Debt/ESG Disclosure](#)

# Internal Control Example

## Compliance with Laws & Regulations cont.

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Ohio Compliance Supplement Manuals

2025

[Ohio Compliance Supplement Implementation Guide \(pdf\)](#)

- The Compliance ACE is available in Exhibit 3
  - [Legal Matrix \(xlsx\)](#)

[Ohio Compliance Supplement Manual \(pdf\)](#)

- Chapter 1 – Direct Laws (pdf) (docx)
- Chapter 2 – Indirect Laws and Statutorily Mandated Tests (pdf) (docx)
- Chapter 3 – Stewardship (pdf) (docx)

[Optional Procedures Manual \(docx\)](#)

2024

[Ohio Compliance Supplement Implementation Guide \(pdf\)](#)

- The Compliance ACE is available in Exhibit 3
- [Legal Matrix \(xlsx\)](#)

[Ohio Compliance Supplement Manual \(pdf\)](#) — May 2024

- Chapter 1 – Direct Laws (pdf) (docx)
- Chapter 2 – Indirect Laws and Statutorily Mandated Tests (pdf) (docx)
- Chapter 3 – Stewardship (pdf) (docx)
- Chapter 4 – School Compliance Testing (pdf) (docx) — Updated May 2024

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[Ohio Compliance Supplement Implementation Guide \(pdf\)](#)

- The Compliance ACE is available in Exhibit 3
- [Legal Matrix \(xlsx\)](#)

[Ohio Compliance Supplement Manual \(pdf\)](#) — Updated May 2023

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- Chapter 4 – School Compliance Testing (pdf) (docx) — May 2023

[Optional Procedures Manual \(docx\)](#)

# Internal Control Example

## Compliance with Laws & Regulations cont.

Legal_Matrix_2025 - View-only											
Search for tools, help, and more (Alt + Q)											
File Home Insert Share Page Layout Formulas Data Review View Help Draw											
Comments Viewing Edit a copy											
AP15											
B C AF AG AH AI AJ AK AL AM AN AO AP											
1	<b>OCS Legal Matrix (November 2024)</b>										
2	<b>Notes:</b> 1) Entities are in alphabetical order.										
3	2) Excel is limited to only one hyperlink for each cell. If more than one footnote is applicable, you will have to find it manually below this										
4	3) We had to apply footnotes to checkmarks whether the section applies or not. So pay close attention to the footnotes to determine applicability										
7											
8	<b>Step N</b>	<b>Requirement</b>	<b>State Comm. College (3358)</b>	<b>STEM/STEAM Schools</b>	<b>Tech College (3357)</b>	<b>Township</b>	<b>Traditional Schools</b>	<b>Union Cemetery District</b>	<b>Village</b>	<b>County</b>	
9	<b>General Budgetary Requirements (1-1 through 1-3)</b>		✓ <sup>16</sup>		✓ <sup>16</sup>			✓ <sup>2</sup> ✓ <sup>3</sup>			
10	1-1	ORC 5705.38: Annual appropriation measures - classification	✓		✓	✓	✓	✓	✓	22	
11	1-2	ORC 5705.41(D); and 5705.42: Restriction upon appropriating/expending money - certificate of fiscal officer	✓		✓	✓	✓	✓	✓	23	
12	1-3	ORC 5705.40: Amending or supplementing appropriations; contingencies	✓		✓	✓	✓	✓	✓	22	
13	1-4	ORC 5705.09: Establishing funds and 5705.12 Permission to establish special funds	✓		✓	✓	✓	✓	✓	20	
14	1-5	ORC 133.01, 1545.23, 3315.20, 5155.33, 5549.21, Various 5705 Sections, 5735.28: Distribution of levy revenue	✓		✓	✓	✓	✓	✓	21	
15	1-6	ORC 5705.05 and 5705.14-.16: Transfer of funds <sup>47</sup>	✓		✓	✓	✓	✓	✓	21	
16	1-7	AOS Bulletin 1997-003 and various ORC Sections: Advances <sup>7</sup>	✓		✓	✓	✓	✓	✓	21	
17	1-8	ORC 5705.13, 5705.132, 5705.222, 5705.29: Reserve balance accounts & funds	✓		✓	✓	✓	✓	✓	21	
18	1-9	ORC 5101.144: County Children Services Fund								1	
19	<b>Debt (1-10 through 1-13 &amp; 4A-3)<sup>1</sup></b>									0	
20	1-10	ORC 133.22: Leg. auth. anticipation securities	✓		✓					12	
21	1-10	ORC 133.24: Tax anticipation notes	✓		✓					12	
22	1-10	ORC 5705.03: Auth. to levy taxes	✓		✓			✓		14	
23	1-10	ORC 5705.03: Gen. levy for current exp	✓		✓			✓		10	
24	1-10	ORC 5705.09: Est. of funds	✓		✓			✓		10	
25	1-10	ORC 5705.10: Disn. and use of tax revenue	✓		✓			✓		10	

# Things to Avoid

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- Off the books transactions
- Hand-shake agreements
- Kickbacks from vendors
- Inconsistent application of policies and procedures
- Lack of segregation of duties
- Summarized and untimely data
- Odd / significant transactions approved by one person



# Best Practices Cash Handling

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- Perform bank reconciliations timely, every month, and consider having a second person review
- Require review and approval by the governing body
- Consider having your bank send monthly statements to multiple members of the governing body
- Consider having someone not involved in daily activity perform the reconciliation (segregation of duties)
- Restrict the amount of cash that employees can access at any given time and use secure storage methods
- Timely deposits with financial institutions

# Best Practices Receipts

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- Use a rate schedule
  - Post the rate schedule on your website or in your office
- Maintain support:
  - Pre-numbered receipts
  - Bank validation ticket
  - Contracts
  - Budgets
- Governing members should receive information related to monthly receipts
- Incorporate segregated duties over reconciliation for daily and monthly collections

# Best Practices Segregated Duties

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- Financial Management – This separation ensures that no one person can initiate, approve, and process a payment, reducing the risk of unauthorized or fraudulent transactions
- Procurement - By dividing responsibilities, the government ensures transparency and accountability in spending public funds
- Payroll - This prevents manipulation of payroll data and ensures that only verified hours are paid
- Grant Management - Segregating duties in grant management helps prevent favoritism and ensures fair allocation of resources
- Asset Management - This ensures that assets are properly accounted for and reduces the risk of theft or misuse

# Best Practices Disbursements

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- Create a procurement/purchasing policy
- Require two signatures on checks
  - Consider involving a member of the governing body
- Always include proper support:
  - Copy of signed check
  - Invoice
  - Contract
  - Purchase order
- Governing body should approve all monthly disbursements

# Best Practices Payroll Payments

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- Timesheet approvals by a Supervisor
- Time data review by a Payroll Specialist
- Payroll Report review by a Fiscal Officer
- Maintaining all timesheet and leave approval documents
- Board approval of all updates related to payments to employees

# Key Takeaways

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- Internal controls:
  - Ongoing
  - Need to be communicated
- Segregate tasks where possible
- Governing body involvement is paramount
- Document & approve policies and procedures
- Be aware of the compliance requirements
  - Educate staff and the governing body

# QUESTIONS

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# Contact Information

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