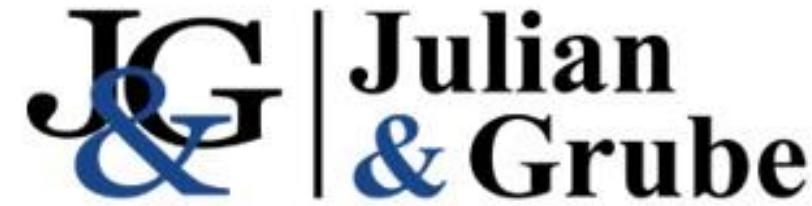




38th Annual Conference &
Membership Meeting
September 17-19, 2025 – Columbus, OH



Internal Controls & Segregation of Duties Review

Presented By: Amanda Copeland

Agenda

- 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?

- 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?

- 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?

- 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

- 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

- 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

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

- 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

- 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

- 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

- 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

- 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

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.

- 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.

- 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

- Governing body – this is who has ultimate decision-making responsibility
- What can you do?
 - Top-down approach
 - Review and approve policy
 - Disclose 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

- 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

- 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

- 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

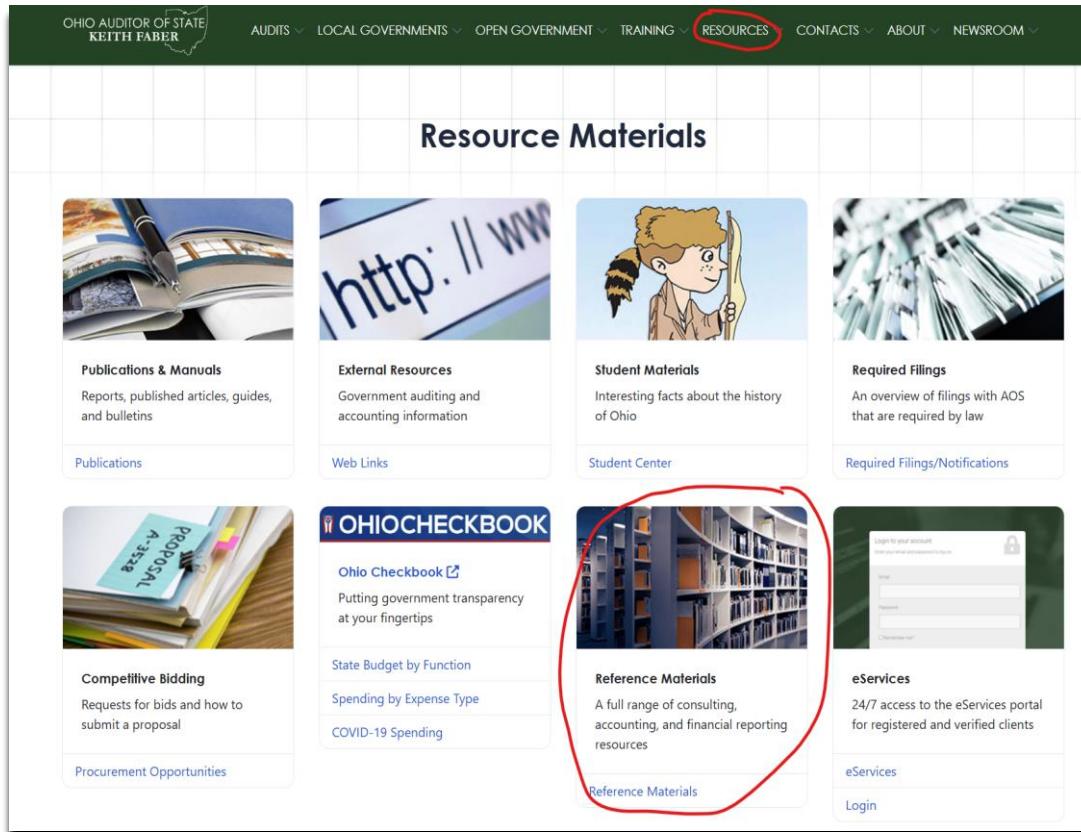
Compliance with Laws & Regulations cont.

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AUDITS ▾ LOCAL GOVERNMENTS ▾ OPEN GOVERNMENT ▾ TRAINING ▾ **RESOURCES** (circled)

CONTACTS ▾ ABOUT ▾ NEWSROOM ▾

Resource Materials



Publications & Manuals
Reports, published articles, guides, and bulletins

External Resources
Government auditing and accounting information

Student Materials
Interesting facts about the history of Ohio

Required Filings
An overview of filings with AOS that are required by law

Publications

Ohio Checkbook (circled)
Putting government transparency at your fingertips

Competitive Bidding
Requests for bids and how to submit a proposal

Procurement Opportunities

Reference Materials (circled)
A full range of consulting, accounting, and financial reporting resources

eServices
24/7 access to the eServices portal for registered and verified clients

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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.

Clients & IPA Firms

- Frequently Asked Questions
 - GASB FAQs
 - Library FAQs and Program Codes
 - Other Accounting FAQs
- Financial Statement Shells & Notes
 - GAAP
 - OCBOA
 - Regulatory
 - Specialized Footnotes

Ohio Compliance Manuals (circled)
Single Audit Practice Aids & Report Shells

Federal Award Compliance Control Records (FACCR)
Agreed-Upon Procedure Shells

Audit Report Shells

- FYe 12/31/21 & Subseq
- Prior to FYE 12/31/21

Additional Audit Guidance

- Agricultural Societies
- Community Schools
- American Municipal Power

Ohio Laws & Rules

Publications & Manuals

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
[IPA Correspondence](#)

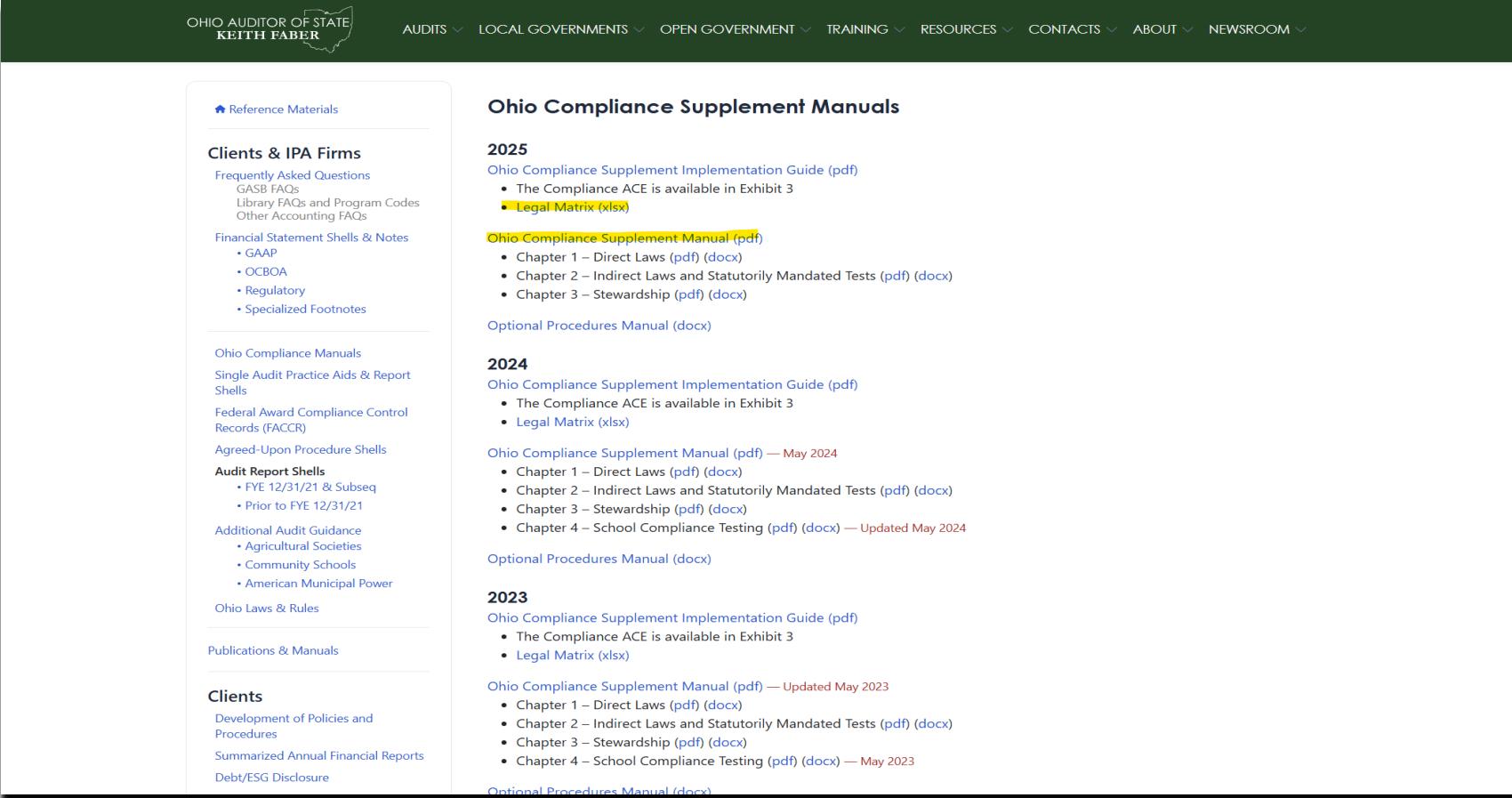
Uniform Accounting Network (UAN)
IPA firms can check the progress of a report: [UAN Filing Status](#) →

UAN Training:
[Watch the Audit Workbench Software Webinar](#)

Clients
Development of Policies and Procedures
Summarized Annual Financial Reports
Debt/ESG Disclosure

Internal Control Example

Compliance with Laws & Regulations cont.



The screenshot shows the website of the Ohio Auditor of State, Keith Faber. The top navigation bar includes links for AUDITS, LOCAL GOVERNMENTS, OPEN GOVERNMENT, TRAINING, RESOURCES, CONTACTS, ABOUT, and NEWSROOM. The main content area is titled "Ohio Compliance Supplement Manuals". It is organized by year: 2025, 2024, and 2023. Each year section contains links to various compliance documents, such as the "Ohio Compliance Supplement Implementation Guide" (PDF) and "Optional Procedures Manual" (DOCX). The 2025 section also includes links to the "Legal Matrix" (XLSX) and "Chapter 3 – Stewardship" (DOCX). The 2024 section includes links to "Chapter 1 – Direct Laws" (PDF) and "Chapter 2 – Indirect Laws and Statutorily Mandated Tests" (PDF). The 2023 section includes links to "Chapter 1 – Direct Laws" (PDF), "Chapter 2 – Indirect Laws and Statutorily Mandated Tests" (PDF), "Chapter 3 – Stewardship" (DOCX), and "Chapter 4 – School Compliance Testing" (DOCX). The sidebar on the left lists "Reference Materials" and "Clients & IPA Firms", which include links to "Frequently Asked Questions" (GASB, Library, Other Accounting), "Financial Statement Shells & Notes" (GAAP, OCBOA, Regulatory, Specialized Footnotes), "Ohio Compliance Manuals" (Single Audit, Federal Award, Agreed-Upon Procedure, Audit Report, Additional Audit Guidance), "Ohio Laws & Rules", "Publications & Manuals", and "Clients" (Development of Policies and Procedures, Summarized Annual Financial Reports, Debt/ESG Disclosure).

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

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

2023

[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](#)

- 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 [\(pdf\)](#) [\(docx\)](#) — May 2023

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

Internal Control Example

Compliance with Laws & Regulations cont.

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Search for tools, help, and more (Alt + Q)

Comments Viewing Edit a copy

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1 OCS Legal Matrix (November 2024)

Notes:

- 1) Entities are in alphabetical order.
- 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 row.
- 3) We had to apply footnotes to checkmarks whether the section applies or not. So pay close attention to the footnotes to determine applicability.

Step N Requirement State Comm. College (3358) STEM/STEAM Schools (3357) Tech College (3357) Township Traditional Schools Union Cemetery District Village Cour

General Budgetary Requirements (1-1 through 1-3)

1-1 ORC 5705.38: Annual appropriation measures - classification ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 22

1-2 ORC 5705.41(D); and 5705.42: Restriction upon appropriating/expenditure of money - certificate of fiscal officer ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 23

1-3 ORC 5705.40: Amending or supplementing appropriations; contingencies ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 22

1-4 ORC 5705.09: Establishing funds and 5705.12: Permission to establish special funds ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 20

1-5 ORC 133.01, 1545.23, 3315.20, 5155.33, [5549.21](#), Various 5705 Sections, 5735.28: Distribution of levy revenue ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 21

1-6 ORC 5705.05 and 5705.14-16: Transfer of funds [47](#) ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 21

1-7 AOS Bulletin 1997-003 and various ORC Sections: Advances [7](#) ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 21

1-8 ORC 5705.13, 5705.132, 5705.222, 5705.29: Reserve balance accounts & funds ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 21

1-9 ORC 5101.144: County Children Services Fund ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 1

Debt (1-10 through 1-13 & 4A-3)*

1-10 ORC 133.22: Leg. auth. anticipation securities ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 12

1-10 ORC 133.24: Tax anticipation notes ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 12

1-10 ORC 5705.03: Auth. to levy taxes ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 14

1-10 ORC 5705.03: Gen. levy for current exp ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 10

1-10 ORC 5705.09: Est. of funds ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 10

1-10 ORC 5705.10: Distr. and use of tax revenue ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 10

QCS - Exhibit 5 QCS - Exhibit 6 QCS 2B-8 Step 7 Applicability OPM

Things to Avoid

- 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

- 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

- 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

- 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

- 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

- 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

- 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



Contact Information

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Westerville, Ohio 43082

