



plante moran

Audit. Tax. Consulting.
Wealth Management.

Internal controls in a remote environment: Best practices for the public sector



Presenters



Joe Reich, Senior Manager Plante Moran

Joe is a member of the firm's governmental industry group and Government Airport Practice, serving clients nationwide. Joe has over 11 years of experience serving various special purpose government entities.



Josh Louge, Manager Plante Moran

Josh is a member of Plante Moran's higher education technical standards team focusing on both public and private institutions and single audit. Josh has 8 years of experience in public accounting serving higher education institutions and not-for-profit organizations.



Overview of today's discussion

- Understand and identify risks and potential gaps in internal controls related to financial reporting.
- Understand and identify potential gaps in internal controls related to compliance with federal awards.
- Understand the importance of documenting control changes during the pandemic.
- Introduce frameworks to help manage risk at the process, division, and organizational level.



The importance of internal control

- Minimize opportunities for errors and omissions
- Identify small issues before they aggregate into big problems
- Reduce the risk of intentional fraud



Polling question 1

What are you hoping to gain out of today's webinar?

- A. Looking to ensure we have adequate internal controls.
- B. Looking for ways to improve our internal controls.
- C. We have poor controls, so looking to start from the bottom up.
- D. We had great controls, but worried we are missing something under a remote environment.



Polling question 1 results

What are you hoping to gain out of today's webinar?

- Answer A
- Answer B
- Answer C
- Answer D

LIVE RESULTS DISPLAYED



IT general controls



IT general controls

- Logical access controls
 - Access being granted to new employees
 - Access terminations
 - Access changes
- Is the request for the change authorized by the appropriate person? (HR, supervisor, etc.)
- For new access and access changes, was a review performed (and documented) to determine if the new access would lead to incompatible roles or responsibilities?
- For termination of access, is there a control that enables access being deleted or disabled on the desired date?
- Are changes temporary for working remotely or are they intended to be permanent?



IT general controls

- Maintain segregation of duties
 - Individuals with full administrative access to network/applications do not have access to post transactions in the core financial applications (i.e. staff with full access cannot post transactions) and vice versa.
- Potential mitigating controls and procedures
 - Built-in IT controls
 - Ensure controls are in place to limit the ability to create or modify general ledger accounts
 - Nonmodifiable date/time stamps on transactions
 - Separate review of all financial entries posted by the individual with full administrative access
 - Periodic user access reviews performed by someone who would be able to detect unauthorized users
 - Necessary corrections of access levels are made by IT department on a timely basis



General ledger

Manual journal entries

- Focus on the process for initiating and approving transactions
- Identify ways to safely/securely convert the manual process to electronic
 - Scanning to PDF
 - Accounting system workflows
 - Email notifications and approvals if appropriate measures are considered (i.e. phishing, malware, etc.)
- Maintain segregation of duties
 - Keep in mind challenges brought on by not only operating remotely but also operating with fewer staff



General ledger

Manual journal entries

- Reviews and approvals may be stretched into other administrative personnel (where appropriate — person should have necessary skills, knowledge, and experience to perform this task)
- Will you eliminate all risk? Not likely
 - Think of compensating controls that can alleviate certain risks
- The risk assessment process will help arrive at an acceptable level of risk.
- Any changes to internal controls should be documented!
(the auditors will ask!)



General ledger

Example risk analysis: Manual journal entry process

- How are journal entries and other adjustments identified for recording in the general ledger?
- How are journal entries and other adjustments authorized for entry into the general ledger?
- How are these transactions processed and recorded in the general ledger? By whom? How is this documented?
- What procedures are in place to prevent, or detect and correct, unauthorized entries?
- What overall management monitoring takes place over this area?



Manual journal entry process

Example: Old process

Journal entry functions	1	2
Key concerns:	How are journal entries and other adjustments (i.e. report entries such as reclassification and other non-automated/nonrecurring entries) identified for recording in the general ledger?	How are journal entries and other adjustments authorized for entry into the general ledger?
Process step:	Finance clerk initiates journal entry by preparing a paper copy manual JE form and attaches supporting documentation. The journal entry is initiated into the manual journal entry module of the financial reporting software. Clerk forwards the paper copy packet to the assistant finance director.	Assistant finance director reviews support for the journal entry and logs in to the manual journal entry module of the financial reporting software to ensure the paper copy matches the initiated entry.
Responsible department:	Finance	Finance
Ability to do remotely?	Manual process No	Manual process No



Manual journal entry process

Example: Old process

Journal entry functions	3	4	5
Key concerns:	How are these transactions processed and recorded in the general ledger? By whom? How is this documented?	What procedures are in place to prevent, or detect and correct, unauthorized entries?	What overall management monitoring takes place over this area?
Process step:	After approving, the assistant finance director signs off on the paper copy of the journal entry form and authorizes the entry in the software, effectively posting the entry.	Journal entries cannot be initiated and approved by the same individual. Only the assistant finance director can approve ("post") entries. Any entries initiated by the assistant finance director have to be approved by the finance director.	The city manager reviews a log of journal entries posted at the end of each month. The city manager's review also includes a review of budget to actual income statement reports, as well as a balance sheet at the income statement line item. The software attaches a nonmodifiable date/time stamp to each manual entry which also includes the user that posted the entry and the user that approved the entry.
Responsible department:	Finance	Finance	Finance
Ability to do remotely?	Manual process No	Yes	Yes



Manual journal entry process

Example: New process

Journal entry functions	1	2
Process step:	Finance clerk initiates journal entry by preparing a paper copy manual JE form. (This can be electronic. Think about ways to automate this through financial software workflows, or even through PDF copies). The journal entry is initiated into the manual journal entry module of the financial reporting software (All paper copies should be scanned* and attached to the journal entry support). Clerk forwards the paper electronic packet to the assistant finance director.	Assistant finance director reviews support for the journal entry and logs in to the manual journal entry module of the financial reporting software to ensure the PDF copy matches the initiated entry.
Responsible department:	Finance	Finance
Ability to do remotely?	Manual process No	Yes

* Ensure secure and encrypted method for scanning



Manual journal entry process

Example: New process

Journal entry functions	3	4	5
Process step:	After approving, the assistant finance director electronically signs off on the journal entry form and authorizes the entry in the software, effectively posting the entry.	Journal entries cannot be initiated and approved by the same individual. Only the assistant finance director can approve ("post") entries. Any entries initiated by the assistant finance director have to be approved by the finance director.	The city manager reviews a log of journal entries posted at the end of each month. The city manager's review also includes a review of budget to actual income statement reports, as well as a balance sheet at the income statement line item. The software attaches a nonmodifiable date/time stamp to each manual entry which also includes the user that posted the entry and the user that approved the entry.
Responsible department:	Finance	Finance	Finance
Ability to do remotely?	Yes	Yes	Yes



Polling question 2

What are/were your thoughts on working remotely?

- A. I love working from home. I never want to go back!
- B. I miss my co-workers, I can't wait to go back to the office!
- C. Working from home when I'm the only one home is great. Working from home when my kids and spouse are home is not great.
- D. I don't mind working from home for now, but I don't think I would want to do it forever.



Polling question 2 results

Question 1

- Answer A
- Answer B
- Answer C
- Answer D

LIVE RESULTS DISPLAYED



Online banking,
cash receipts, and
accounts
receivable



Online banking

Documenting use of online banking

- Which accounts and for what purpose is online banking used?
- Who uses online banking?
- Is there a formal online banking policy?

Account Name	Account No.	Institution	Online Access	Transfer Initiator	Transfer Approver	Bank Rec Preparer
General checking	*****684	Bank of Indiana	Treasurer, Finance Director	Finance director only	Treasurer only	Deputy finance director
Water checking	*****758	Bank of Indiana	Treasurer, Finance Director	Finance director only	Treasurer only	Deputy finance director
Pension	*****114	ABC Bank	Treasurer, Investment Manager, Finance Director	FD or IM	Treasurer only	Deputy finance director
Retiree healthcare	*****968	ABC Bank	Treasurer, Investment Manager, Finance Director	FD or IM	Treasurer only	Deputy finance director



Online banking

Formalize online banking policy

Electronic or Wire Transfers and Remote Depositing: Procedures will be developed and implemented specifying who is authorized to initiate, approve, transmit, record, review and reconcile electronic transactions. Limitations on the dollar amount of individual wires as well as limitations on the maximum dollar amount of wires, per day, will be set. At least two individuals will be involved in each transaction where funds are disbursed from a district account to an outside entity. Authorization and transmitting functions will be segregated. The four areas used by the District include:

- A. Remote Depositing
- B. Transfers between District Bank Accounts
- C. Automated Clearing House (ACH) Transactions
- D. Wire Transfer to Outside Organizations

Additional Security Measures: Procedures will be developed to strengthen controls over reducing the risk of fraudulent activities. These may include the use of *Payee Check Positive Pay* and ACH debit blocks and filters on high volume District accounts. Procedures will also include the corrective action plan should fraudulent activity be suspected.



Online banking

Segregation of duties

- Initiate and release functions are segregated between two people in order to move money to outside accounts.
- Which users can initiate wires and approve wires? Can the same user initiate and approve their own wires? What is the initiation process?
 - In a remote environment, avoid using emails as the method to communicate a request for a transfer.
- Account reconciliation performed by someone who does not have control over assets.



Online banking

General controls

- Access security
 - Does each employee with online access to bank accounts have a unique user identification and password?
 - Passwords should be sufficiently complex and be changed regularly to prevent hacking. Is there a maximum number of failed attempts allowed?
 - Leverage the use of multifactor authentication





Online banking

General controls

- Volume limits
 - Per transaction limit
 - Total daily limit
- Limited payees and transferees
 - Internal and external limits
- Notifications
- Activity logging



Online banking

General controls

- Positive pay
 - Matches payment details (account number, check number, dollar amount) against a list of payments previously authorized by the organization.
 - Traditional positive pay can be expanded to include a variety of review points and options and remains an effective tool to mitigate fraud.
 - The bank customer can have the option to review all unconfirmed checks presented online with defaults set to “allow after 24 hours” or “deny.”
 - Positive Pay has been copied for ACH transactions and can be used in a similar fashion for electronic banking – ACH Debit Blocker.
 - Local governments can be at higher risk for altered and counterfeit checks.



Online banking

Formalize online banking policy

Electronic or Wire Transfers and Remote Depositing: Procedures will be developed and implemented specifying who is authorized to initiate, approve, transmit, record, review and reconcile electronic transactions. Limitations on the dollar amount of individual wires as well as limitations on the maximum dollar amount of wires, per day, will be set. At least two individuals will be involved in each transaction where funds are disbursed from a district account to an outside entity. Authorization and transmitting functions will be segregated. The four areas used by the District include:

- A. Remote Depositing
- B. Transfers between District Bank Accounts
- C. Automated Clearing House (ACH) Transactions
- D. Wire Transfer to Outside Organizations

Additional Security Measures: Procedures will be developed to strengthen controls over reducing the risk of fraudulent activities. These may include the use of Payee Check Positive Pay and ACH debit blocks and filters on high volume District accounts. Procedures will also include the corrective action plan should fraudulent activity be suspected.



Polling question 3

How was your work environment been impacted by the COVID-19 pandemic?

- A. Were in a complete shutdown of the office with everyone working remotely
- B. Limited staff in the office, most working remotely
- C. Most working in the office, limited remote work
- D. Back to business as usual in the office with no remote work



Polling question 3 results

How has your work environment been impacted by the COVID-19 pandemic?

- Answer A
- Answer B
- Answer C
- Answer D

LIVE RESULTS DISPLAYED



Cash receipts and accounts receivable

Step 1 - identify and summarize the types of payments received

Revenue streams	Payment types				
	Walk-in payments	City hall lock-box payments	Bank lock-box payments	Online services payments	ACH
Property taxes	X	X	X	X	
Grants					X
Utility billings	X	X	X	X	
Lease and rents revenue	X	X	X		X
Charges for services	X			X	



Cash receipts and accounts receivable

Step 2 - for each type of payment, perform a step-by-step analysis to determine where potential gaps exist

Accounts receivable: Cash and check payments

Process step:

Paper checks are delivered by the postal service to a lock-box at City Hall. Mail is retrieved for distribution from the lock-box by the mail clerk and placed in a locked drawer at the Accounts Receivable desk.

Accounts Receivable Clerk 1 opens up the mail in the locked drawer, reviews the nature of the payments, and records all check receipts into an electronic check log.

Responsible department:

Mail

Accounts Receivable

Ability to do remotely?

Payment received in mail or paper form?

No

Payment received in mail or paper form?

No



Cash receipts and accounts receivable

Step 2 - for each type of payment, perform a step-by-step analysis to determine where potential gaps exist

Accounts receivable: Cash and check payments

Process step:	AR Clerk 1 forwards the paper copies to AR Clerk 2. AR Clerk 2 opens up the electronic check log and compares to the paper copies provided. AR Clerk 2 reviews the nature of the payments, creates an electronic deposit using the bank's remote deposit system, and puts paper copies in to storage, as specified by document retention policies.	AR Clerk 1 compares the deposit details back to the electronic check log, reviews and approves the deposit. AR Clerk 1 generates the journal entry for posting the cash deposit based on the nature of the journal entry.	The journal entry is then forwarded to the assistant controller, who reviews the entry, along with the supporting detail, and posts to the general ledger.
Responsible department:	Accounts Receivable	Accounts Receivable	Controller's office
Ability to do remotely?	Payment received in mail or paper form? No	Yes	Yes



Cash receipts and accounts receivable

Step 3 - Identify ways to minimize or fill those gaps (see suggested gaps/edits in red text)

Accounts receivable: Cash and check payments

Process step:

Paper checks are delivered by the postal service to a lock-box at City Hall. Mail is retrieved for distribution from the lock-box by the mail clerk and placed in a locked drawer at the Accounts Receivable desk.

Accounts Receivable Clerk 1 opens up the mail in the locked drawer, reviews the nature of the payments, and records all check receipts into an electronic check log. **AR Clerk 1 scans* all mail as it is opened.**

Responsible department:

Mail

Accounts Receivable

Ability to do remotely?

No

No



Cash receipts and accounts receivable

Step 3 - Identify ways to minimize or fill those gaps (see suggested gaps/edits in red text)

Accounts receivable: Cash and check payments

Process step:	AR Clerk 1 forwards the paper copies to AR Clerk 2. AR Clerk 2 opens up the scanned documents electronically , along with the electronic check log and compares to the paper copies provided. AR Clerk 2 reviews the nature of the payments, creates an electronic deposit using the bank's remote deposit system.	AR Clerk 1 compares the deposit details back to the electronic check log, reviews and approves the deposit. AR Clerk 1 generates the journal entry for posting the cash deposit based on the nature of the journal entry. AR Clerk 1 puts paper copies in to storage, as specified by document retention policies.	The journal entry is then forwarded to the assistant controller, who reviews the entry, along with the supporting detail, and posts to the general ledger.
Responsible department:	Accounts Receivable	Accounts Receivable	Controller's office
Ability to do remotely?	Yes	Yes	Yes



Polling question 4

What was the most significant change to your organizations internal controls and processes due to remote working?

- A. Electronic approval of transactions
- B. Use of a document management system
- C. Other
- D. No changes



Polling question 4 results

What was the most significant impact to your organizations internal controls and processes due to remote working?

- Answer A
- Answer B
- Answer C
- Answer D

LIVE RESULTS DISPLAYED



Accounts payable



Accounts payable

Accounts payable: Checks

Process step:	Accounts payable manager receives invoices electronically via email or in physical mail.	Accounts payable manager matches invoices against open purchase orders (see purchase order approval) and relieves purchase order.	Accounts payable codes invoices with proper general ledger account string, creates an invoice in accounts payable system, and attaches copy of the electronic invoice into accounts payable system.	Once all invoices are entered, accounting department reviews invoice register and journalizes invoices and checks.	Checks are printed by IT. Accounts payable manager gives checks to approved signer for signature. Accounts payable clerk mails checks.
Responsible department:	Accounts payable manager	Accounts payable manager	Accounts payable manager	Controller's office	Information technology-approved signer accounts payable manager
Ability to do remotely?	Invoices received electronically? Yes	Invoice received electronically? Yes	Invoices received electronically? Yes	Yes – already done electronically.	No
	Invoice received in mail or paper form? No	Invoice received in mail or paper form? No	Invoice received in mail or paper form? No		



Accounts payable

Accounts payable: Wires

Process step:	Accounts payable manager receives invoices electronically via email or in physical mail.	Accounts payable manager matches invoices against open purchase orders (see purchase order approval) and relieves purchase order.	Accounts payable manager receives wire transfer authorization form with treasurer and finance director approval.	Accounts payable codes invoices with proper general ledger account string, enters information into accounts payable system, and scans and attaches invoice and wire transfer form in accounts payable system.	Accounts payable manager enters wire transfer into bank. Wire transfers are released by approved signer via the website.
Responsible department:	Accounts payable manager	Accounts payable manager	Department head/finance director	Accounts payable manager	Accounts payable manager-approved signer
Ability to do remotely?	Invoices received electronically? Yes	Invoice received electronically? Yes	Yes – currently done via paper. This can be done remotely through scanning and electronic signature.	Invoice received electronically? Yes	Yes – currently done via paper. This can be done remotely through scanning support for wires.
	Invoice received in mail or paper form? No	Invoice received in mail or paper form? No		Invoice received in mail or paper form? No	



Accounts payable

Accounts payable plan 2: Administration building shuts down completely

Process step:	City will post on city hall doors and on website that if vendors want to ensure payment, they'll need to submit invoices electronically via accountspayable@city.mi.us	Accounts payable manager matches invoices against open, purchase orders (see purchase order approval) and relieves purchase order.	Accounts payable manager sends a wire authorization form to treasurer and finance director for electronic signature approval.	Accounts payable codes invoices with proper general ledger account string, creates an invoice in accounts payable system, and attaches copy of the electronic invoice and wire authorization form into accounts payable system.	Once all invoices are entered, accounting department reviews invoice register and journalizes invoices and checks.	Accounts payable will set up electronic payment with bank. Approved signer will log into bank module, compare electronic support to wires, and release wires to vendors.
Responsible department:	Accounts payable manager	Accounts payable manager	Accounts payable manager, treasurer, finance director	Accounts payable manager	Controller's office	Approved signer accounts payable manager
Change from normal procedures?	Yes	No	Yes	No	No	Yes



Polling question 5

How would you classify your control environment?

- A. Well integrated, all principals are present and functioning.
- B. We are good, but we have not monitored internal control performance.
- C. We could use some help getting control in order.
- D. It's the wild west over here!



Polling question 5 results

What is your assessment of your organization's internal controls?

- Answer A
- Answer B
- Answer C
- Answer D

LIVE RESULTS DISPLAYED



Control environment frameworks

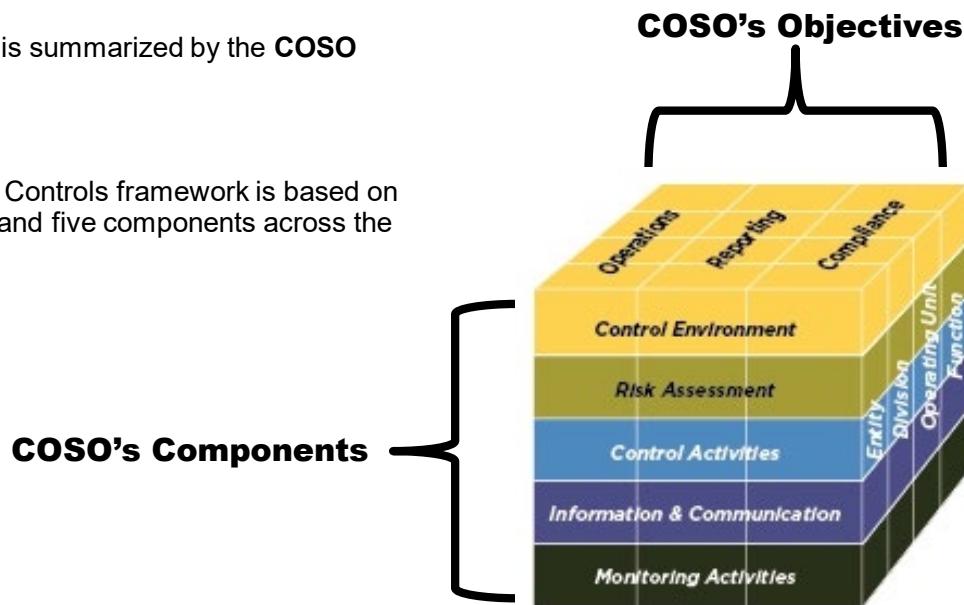


2013 COSO Internal Control Framework

In 1992, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued the original Internal Control—Integrated Framework ("1992 Framework").

This Framework is summarized by the **COSO CUBE**

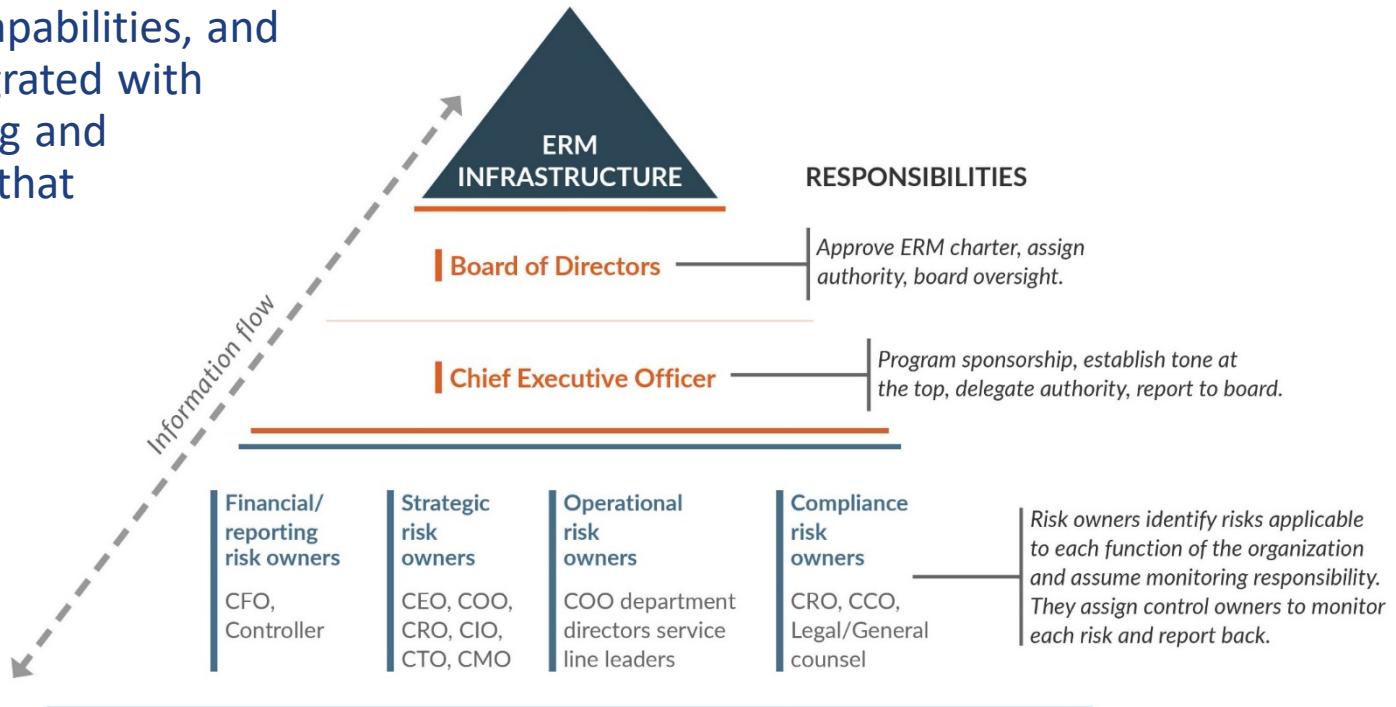
COSO's Internal Controls framework is based on three objectives and five components across the organization





Enterprise risk management

The culture, capabilities, and practices integrated with strategy-setting and performance, that organizations rely on to manage risk in creating, preserving, and realizing value.





ERM framework foundation



Governance & culture



Strategy & objective setting



Performance



Review & revision



Information, communication, & reporting



Four key pillars



Process management around new & evolving risks



Preparedness for unexpected disasters



Staff roles & accountability



Holistic, enterprise-wide design



Contact your presenters



Joe Reich

Senior manager, Plante Moran

joe.reich@plantemoran.com



Josh Louge

Manager, Plante Moran

josh.louge@plantemoran.com



Q&A





Thank you for attending

Remember



- To obtain your certificate at the end of the session, click on the CPE widget located at the bottom of your console.