



Internal Controls
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INTERNAL CONTROL



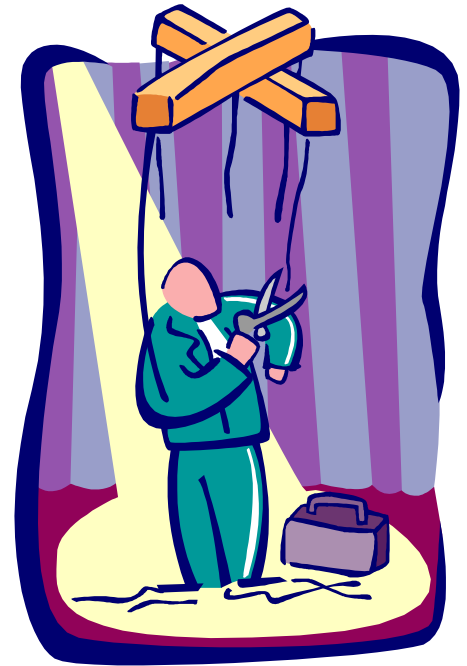
INTERNAL CONTROL

- A government's internal control structure safeguards its assets and provides management with reasonable assurance that transactions are being processed accurately and completely.



OBJECTIVES OF INTERNAL CONTROL

- Reliability of financial reporting.
- Effectiveness and efficiency of operations.
- Compliance with applicable laws and regulations (state and federal).
- Safeguarding of assets



5 COMPONENTS OF INTERNAL CONTROL

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

CONTROL ENVIRONMENT

Sets the tone of the organization and influences the control consciousness of its People. This is the foundation for all other Components.

RISK ASSESSMENT

The identification and analysis of internal and external risks relevant to the achievement of objectives and then determining how to manage those risks.

CONTROL ACTIVITIES

Policies and procedures occurring throughout the organization, at all levels and in all functions, that help ensure management directives are carried out.

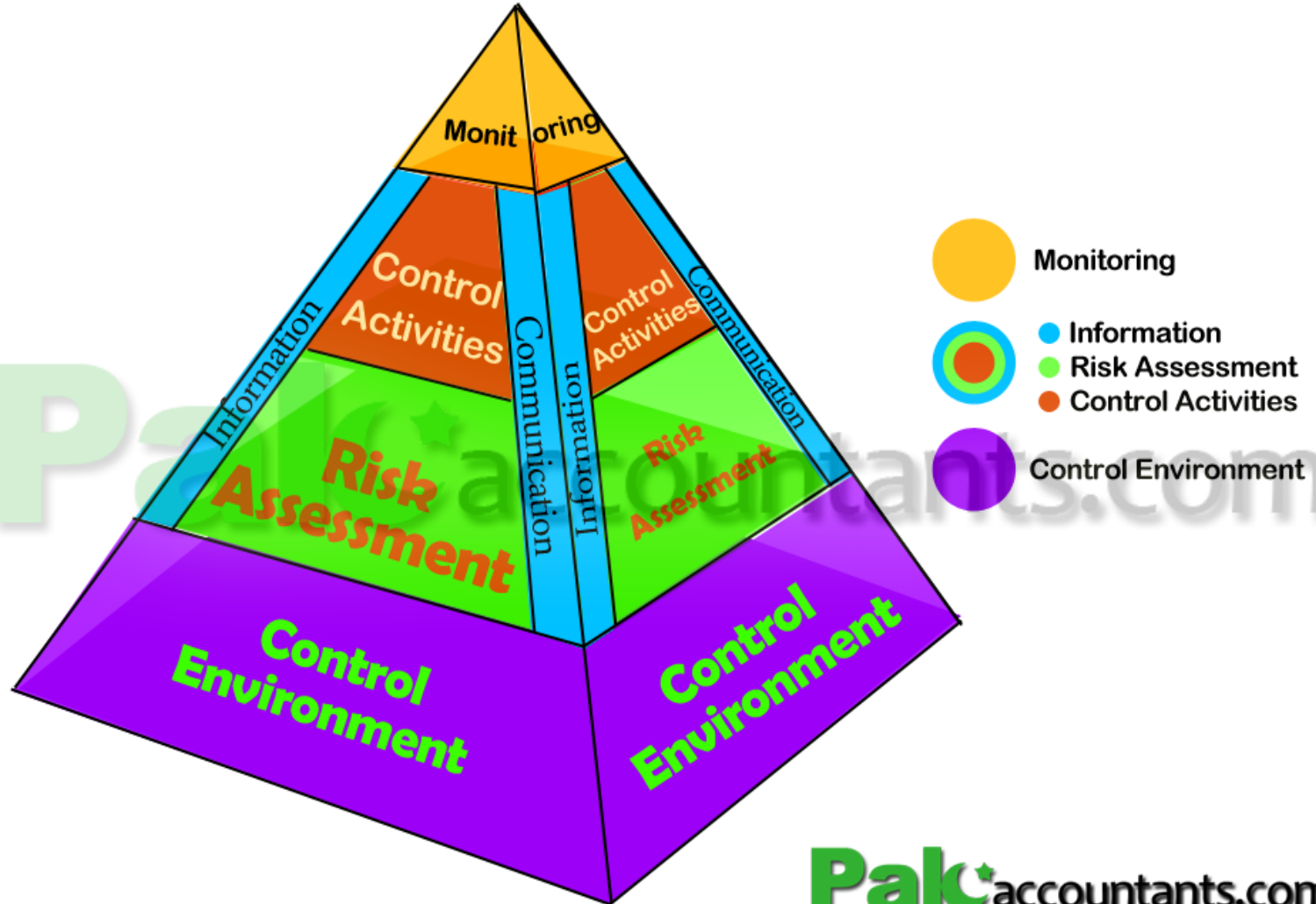
INFORMATION AND COMMUNICATION

Identifying, capturing and communicating pertinent information in a form and timeframe that enable people to carry out their responsibilities.

MONITORING

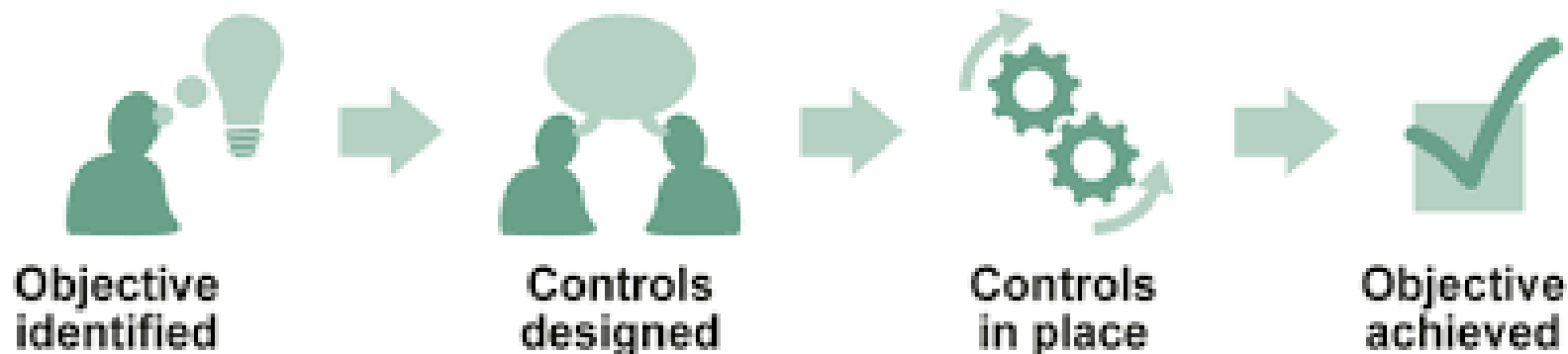
A process that assesses the quality of the internal control system's performance over time.

Components of Internal Control System



COMPONENTS OF AN INTERNAL CONTROL PROCEDURE

- Who performs the procedure?
- What is the procedure?
- How often is it performed?
- How is it evidenced?



TWO CATEGORIES OF INTERNAL CONTROL PROCEDURES

- Application Control
 - preventative in nature
- Monitoring Controls
 - detective in nature



CASH RECEIPTS

- Prenumbered receipt documents should be utilized and controlled
- Receipt documents approved by an appropriate level of management
- All employees with access to cash must be bonded and should be required to take vacations.
- Cash on-hand must be appropriately safeguarded with restricted access

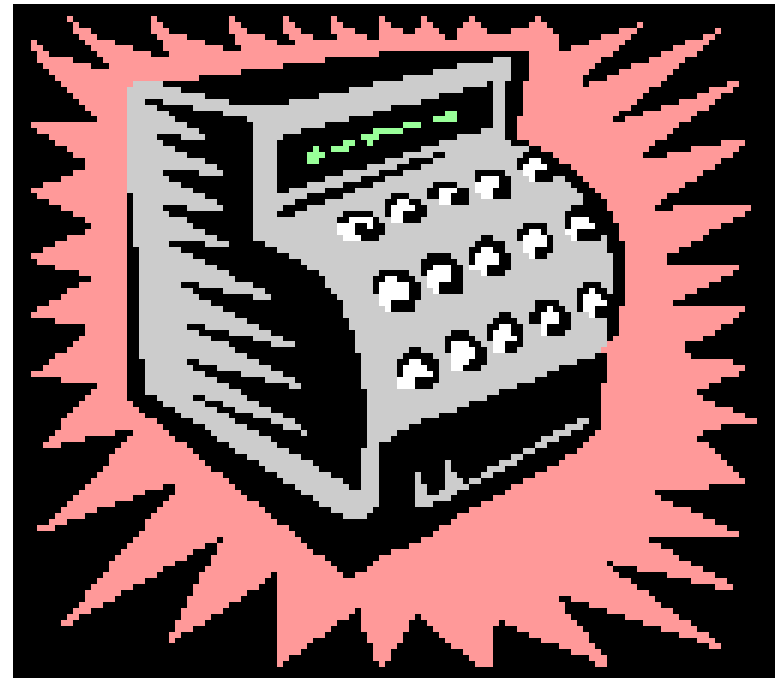
CASH RECEIPTS

Segregation of Duties between receiving, recording, and custody of cash:

- Individuals who open mail ***should*** not prepare deposits, deposit cash receipts, reconcile bank accounts, investigate discrepancies, or record journal entries;
- Individuals who deposit cash receipts ***should*** not reconcile bank accounts or record journal entries; and
- Individuals who reconcile the bank accounts ***should*** not investigate discrepancies or maintain access to cash.

CASH RECEIPTS

- Cash registers should be utilized when appropriate.
- Cash register tapes should be reconciled daily.
- Cashier funds should be counted and reconciled at the end of each shift.
- Daily cash receipts should be compared to postings to customer accounts.



CASH DISBURSEMENTS

- Requisitions to purchase should be reviewed and approved by an appropriate level of management.
- Purchase orders should be reviewed and certified by an authorized individual.
- Purchase order, receiving report, and invoice should be matched prior to payment.
- Prenumbered purchase orders/
System Generated



CASH DISBURSEMENTS

- Should pay from original invoices only (no statements or proposals).
- Paid invoices should be approved for payment by appropriate department/individual
- Pre-numbered checks – any voids/nonissues accounted for and appropriately marked void
- Vendor check should be compared with the approved vendor invoice before it is mailed.
- Blank checks should be appropriately safeguarded with restricted access.

CASH DISBURSEMENTS

- Passwords are established and used for individuals authorized to make wire transfers and/or ACH. 2nd approval where able.
- Segregation of Duties – Individuals who review, authorize, or sign checks ***should*** not prepare checks, mail checks, have access to edit the vendor master file, investigate discrepancies involving cash disbursements, or reconcile the bank accounts.

PETTY CASH

- A petty cash fund should be used for relatively small amounts only.
- Approval must be obtained to establish a petty cash account.
- Petty cash custodian must be appointed.
- Policy should be developed to govern allowable payments from petty cash.

PETTY CASH

- Petty cash on-hand must be appropriately safeguarded with restricted access.
- Each petty cash expenditure must be adequately documented to support replenishment.
- Replenishment should be requested once a pre-determined minimum level has been reached.

PAYROLL DISBURSEMENTS

- Leave forms should be approved (pre-approved whenever possible).
- Time records should be approved.
- Payroll journals, Hours registers, etc. should be reviewed prior to final processing.



PAYROLL DISBURSEMENTS

If using Paper Checks for Payroll:

- Prenumbered checks should be used.
- Blank checks should be appropriately safeguarded with restricted access.
- Payroll checks released only to employee and employee should be required to sign.

Direct Deposit:

Bank file needs to be compared to the final payroll journal and payment should have separate approval

PAYROLL DISBURSEMENTS

- Quarterly payroll filings should be reviewed and approved to ensure accuracy.
- Personnel files should be reviewed on a periodic basis to ensure completeness.
- HR function and payroll processing function should be separate where possible

QUIZ

True or False?

- Applications controls are detective in nature.
- Documentation evidencing the performance of an internal control should be discarded immediately.
- Approving an invoice for payment is an example of an application control.
- All employees should have access to the safe in the event of an emergency.

MONITORING CONTROLS

- Monthly financial reports should be reviewed by the governing body.
- Budget vs. Actual comparisons should be reviewed on a periodic basis.
- Monthly bank reconciliations should be performed.

BANK RECONCILIATION

- Should be performed at least monthly.
- Should be performed by an employee who has no other responsibilities pertaining to cash.
- Necessary to identify time lags and detect errors.



BANK RECONCILIATION

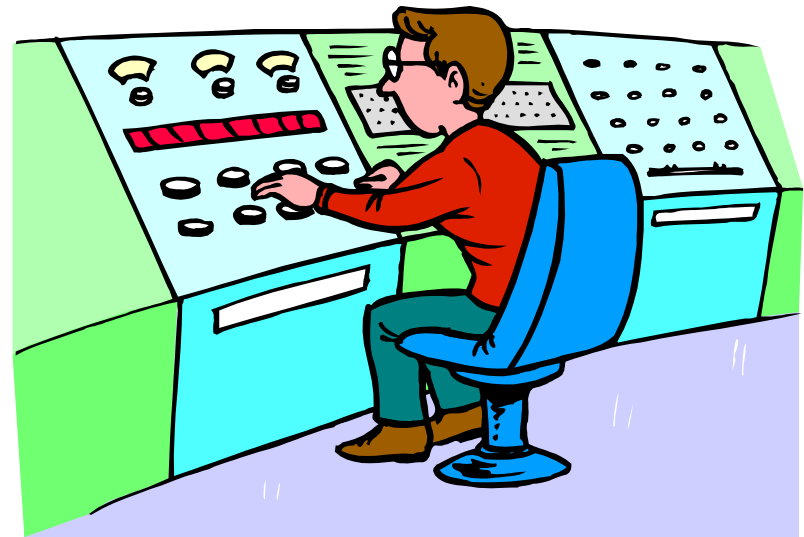


Common Reconciliation Items:

- Deposits-in-transit
- Outstanding checks
- Miscellaneous bank debits and credits

ACCESS CONTROLS

- Computer terminals should be password protected.
- Computer applications should be restricted to only those with a need for such access.
- Computer facilities should be restricted to authorized personnel only.



Computer Controls

- Accountability, authorization, and approval
 - Who has access?
 - Why do they have access?
 - What information systems and data are authorized for use?
 - What is their role and what do they do?
 - Where does sensitive, private information reside?



Computer Controls

- Limit system and data access to appropriate users
- Determine approval hierarchies and limit access
- Appoint a departmental security administrator
- Implement security measures to protect access
- Train employees in computer access, security, software, and appropriate use of information

DISASTER RECOVERY

Procedures to minimize the disruption of Government Operations if computers or other advanced technologies are disabled following a disaster.

DISASTER RECOVERY

At a minimum, a Government's policies and procedures should:

- Formally assign a disaster recovery team
- Require creation and preservation of back-up data
- Make provision for the alternative processing of data following a disaster
- Establish guidelines for the immediate aftermath of a disaster

DISASTER RECOVERY

- Copy of policies and procedures should be kept off-site to ensure availability in the event of a disaster
- Every Government should test its plan and take immediate action to remedy deficiencies identified
- Disaster recovery for outsourced services must also be considered

SERVICE ORGANIZATIONS

- Outsourced services
- SOC 1, Type 2 (Old SAS 70) audit.
- User control considerations.

TYPICAL SO's

- Payroll processing (ADP)
- Income tax processing (RITA)
- EMS billing services
- Self-insurance claims processing
- Investment purchases (where each transaction is NOT pre-approved).

NOT SO'S

- Bank checking account
- Investment purchases (where your entity approves each transaction).
- Purchased insurance policy

WHO'S RESPONSIBLE?

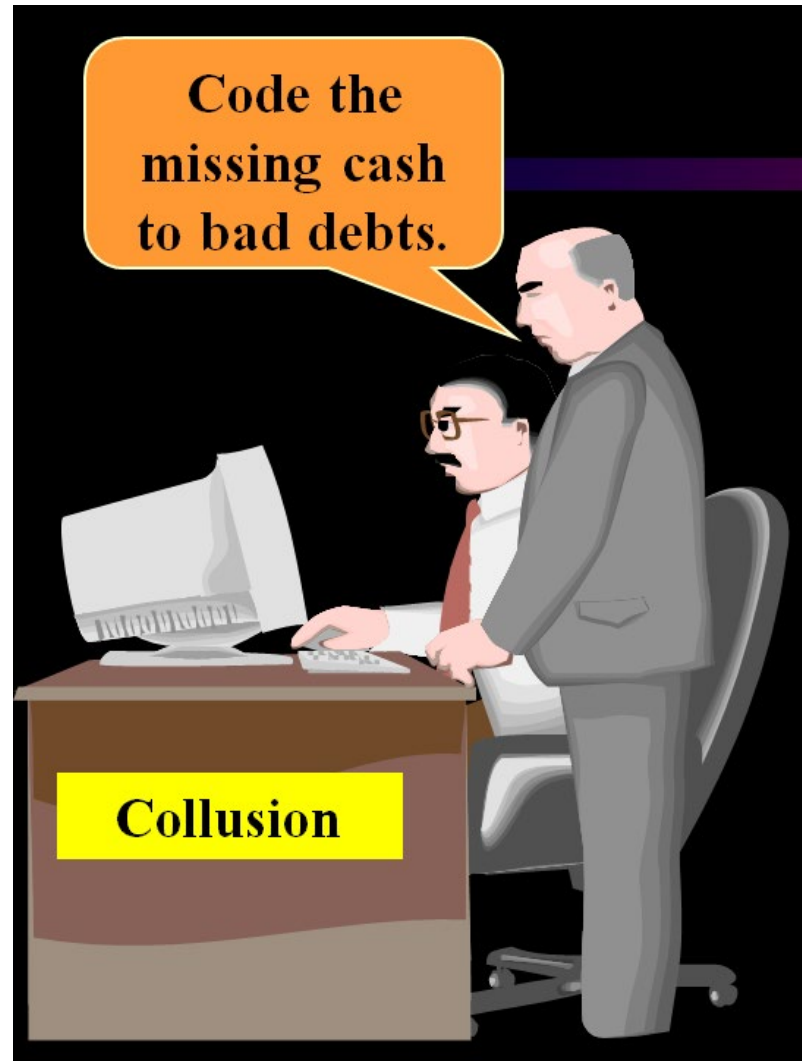
- No shift in responsibility for the underlying activity, the activity remains your entity's activity
- Your entity shares responsibility for processing transactions
- The ultimate responsibility regarding proper processing is yours
- Your entity has a responsibility to monitor its SO's.

INTERNAL CONTROL MONITORING

- Performance of internal control procedures should be monitored by management periodically.
- Monitoring should be the responsibility of an internal audit team.
- Deviations should be reported to management for corrective action.

INTERNAL CONTROL LIMITATIONS

- Cost-Benefit Rule
- Human Element
- Employee Collusion



QUIZ

True or False?

- Reviewing budget vs. actual reports on a periodic basis is an example of a monitoring control.
- It is management's responsibility to implement user control considerations identified in a SOC I Type 2 report.
- A purchased insurance policy is an example of the use of a service organization.
- Internal control procedures will eliminate all accounting errors/omissions.