

Internal Controls

Presented by:
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Agenda

- What are Internal Controls
- Five Essential Elements
- Internal Control Examples
- Things to Avoid
- 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

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
- 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; and
- 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
- Must possess these characteristics:
 - Commitment to integrity and ethical values
 - Independent oversight
 - Clear assignment authority and responsibility
 - Competent staff
 - Accountability

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:
 - **Read them!**
 - 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
 - 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

- 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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An overview of filings with AOS that are required by law
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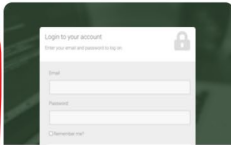
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Reference Materials

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
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

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

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

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

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- [Chapter 3 – Stewardship \(pdf\) \(docx\)](#)
- [Chapter 4 – School Compliance Testing \(pdf\) \(docx\) — Updated May 2024](#)

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

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AP15

	B	C	AF	AG	AH	AI	AJ	AK	AL	AM	AN	AO	AP
1	OCS Legal Matrix (November 2024)												
2	Notes:	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 cell.											
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	Step N	Requirement	State Comm. College (3358)	STEM/STEAM Schools	Tech College (3357)	Township	Traditional Schools	Union Cemetery District	Village	Cour			
9		General Budgetary Requirements (1-1 through 1-3)	✓ 16		✓ 16			✓ 2 ✓ 3					
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 47	✓		✓	✓	✓	✓	✓	21			
16	1-7	AOS Bulletin 1997-003 and various ORC Sections: Advances7	✓		✓	✓	✓	✓	✓	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		Debt (1-10 through 1-13 & 4A-3)8								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			

OCS - Exhibit 5OCS - Exhibit 6OCS 2B-8 Step 7 ApplicabilityOPM

Things to Avoid

- Cash transactions
- 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
- DO NOT SIGN BLANK CHECKS, ever
- 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 approve all monthly receipts
- Incorporate segregated duties

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
- 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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