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DESIGNING STRONG INTERNAL CONTROLS

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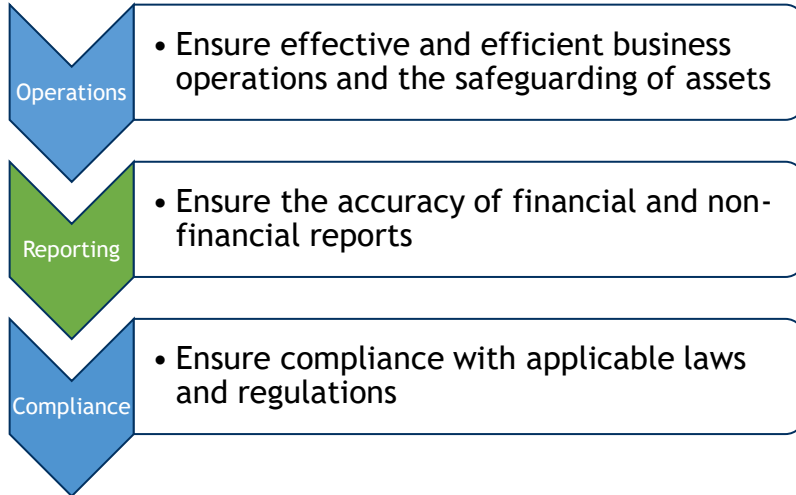
NCGFOA Spring Conference 2023

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What is Internal Control?

Internal control is a PROCESS effected by an entity's oversight body, management, and other personnel that provides REASONABLE ASSURANCE that the OBJECTIVES of an entity will be achieved.
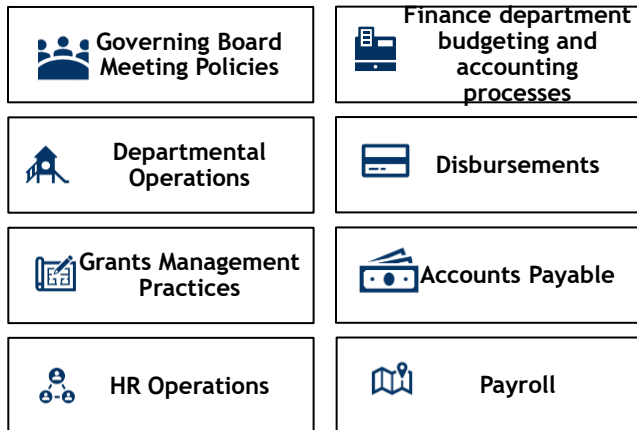
--The GAO Green Book

Objectives of Internal Control

Operations
- Ensure effective and efficient business operations and the safeguarding of assets

Reporting
- Ensure the accuracy of financial and non-financial reports

Compliance
- Ensure compliance with applicable laws and regulations

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Internal controls exist at all levels of the organization & for each transactional process & activity

Governing Board Meeting Policies	Finance department budgeting and accounting processes
Departmental Operations	Disbursements
Grants Management Practices	Accounts Payable
HR Operations	Payroll

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Internal Control Promotes:

Education
- Internal control helps educate newly elected board members and staff

Continuity and efficiency
- Internal control standardizes business operations

Conflict resolution
- Internal controls help establish clear lines of authority

Transparency
- Internal controls promote public confidence by providing accountability for decision-making

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Weak Internal Controls Increase Risk Through…

Interruptions in Daily Operations	Bad Management Decisions	Loss, Misuse or Destruction of Assets	Fraud, Embezzlement, and Theft
• System breakdowns or catastrophes, excessive re-work to correct for errors	• Based on erroneous, inadequate or misleading information • Expenses which could have been avoided, as well as loss of revenues	• Unintentional loss of physical assets such as cash, inventory, and equipment	• By management, employees, customers, vendors, or the public-at-large

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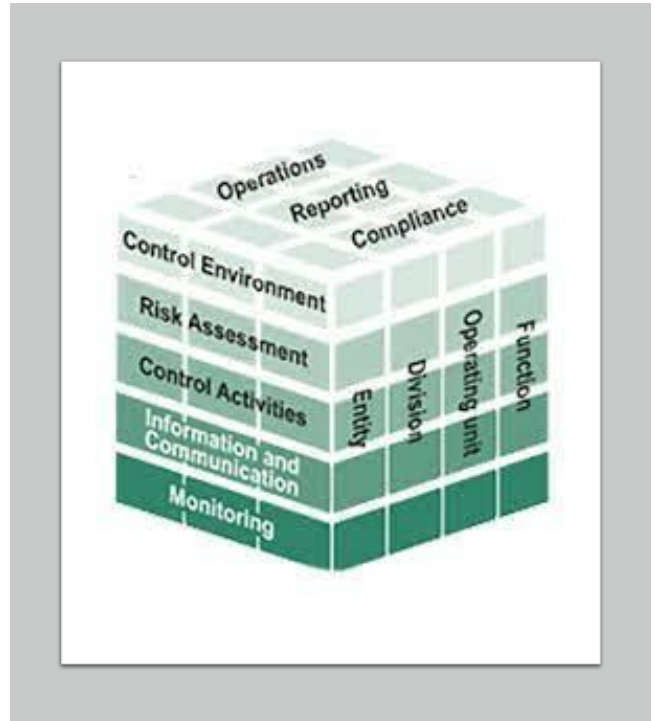
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Are Internal Controls Required?

"The Local Government Commission has the authority to <u>issue rules and regulations having the force of law</u> governing procedures for the receipt, deposit, investment, transfer, and disbursement of money...<u>may inquire into and investigate the internal control procedures</u> of a local government...<u>and may require any modifications in internal control procedures</u>..." G.S. 159-25(c)

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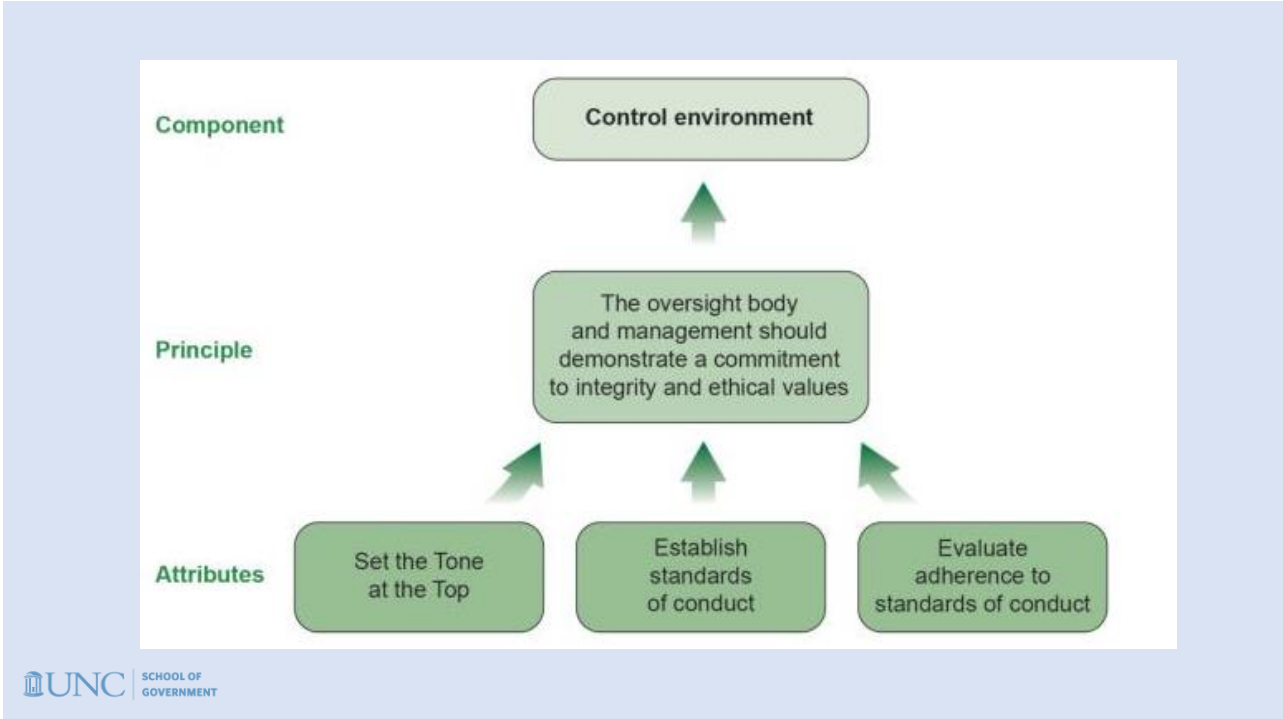# Two Frameworks of Internal Control

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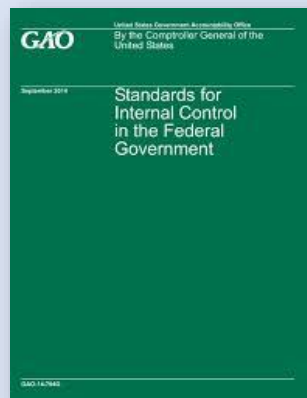
Five Components of Internal Control

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

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17 Principles

Control Environment	1. Demonstrate Commitment to Integrity and Ethical Values 2. Exercise Oversight Responsibility 3. Establish Structure, Responsibility, and Authority 4. Demonstrate Commitment to Competence 5. Enforce Accountability
Risk Assessment	6. Define Objectives and Risk Tolerances 7. Identify, Analyze, and Respond to Risk 8. Assess Fraud Risk 9. Analyze and Respond to Change
Control Activities	10. Design Control Activities 11. Design Activities for the Information System 12. Implement Control Activities
Information & Communication	13. Use Quality Information 14. Communicate Internally 15. Communicate Externally
Monitoring	16. Perform Monitoring Activities 17. Remediate Deficiencies

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Component — Control environment

Principle — The oversight body and management should demonstrate a commitment to integrity and ethical values

Attributes — Set the Tone at the Top | Establish standards of conduct | Evaluate adherence to standards of conduct

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#1: Control Environment

"Tone at the Top"

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Internal Control Defined:

Internal control is a process effected by an entity's <u>oversight body, management</u>, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

--The GAO Green Book

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Control Environment Establishes Responsibility

➤ ***Oversight body*** is by default the governing board

➤ ***Management*** includes upper-level management
  - ➤ Finance officer
  - ➤ Manager
  - ➤ Department heads
  - ➤ Attorney
  - ➤ Mayor
  - ➤ Administrator

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Control Environment

"Tone at the Top"

The governing board and management form the foundation of the internal control system

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Control Environment

The oversight body and management must…

Principles 1-5

Oversight body and management demonstrate a commitment to integrity and ethical values

Oversight Body exercises oversight responsibility for the internal control system

Management establishes structure, responsibility, and authority

Management demonstrates a commitment to competence

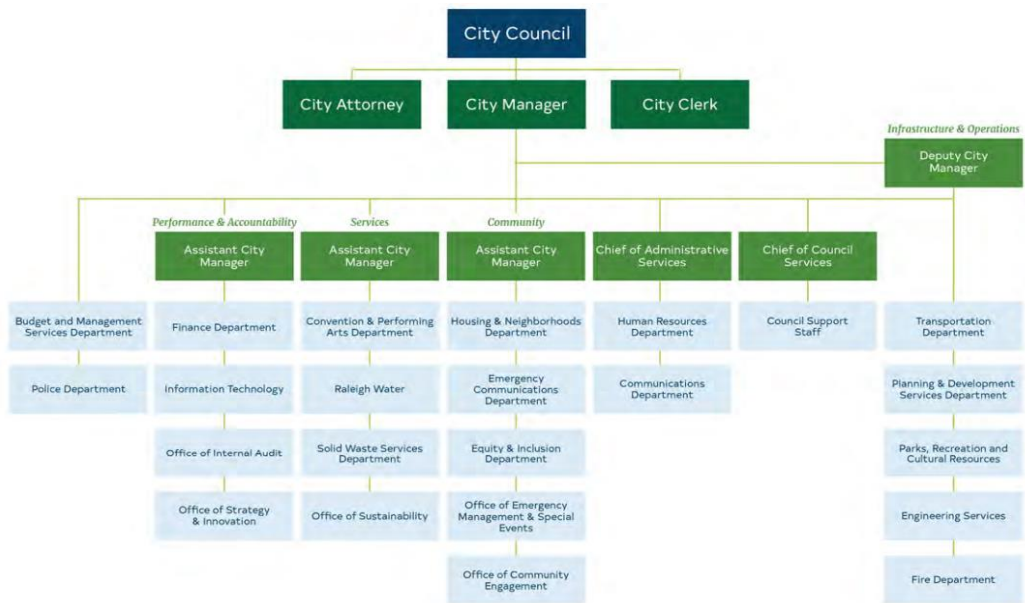**Management** enforces accountability for internal control

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Management Establishes Responsibility

Establish structure, responsibility, and authority

- Establishes structure and reporting lines
- Delegates responsibility for internal controls to "key roles"
- Documents the internal control system

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Commitment to Competence

Commitment to attract, develop and retain competent individuals aligned to the objectives

- Recruit competent employees
- Train employees to develop competencies
- Mentor employees
- Plan succession and contingency plans

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Enforce Accountability

Ensure personnel perform assigned duties

- Hold personnel accountable for performance and conduct
- Ensure internal control responsibilities are performed
- Use performance appraisals and disciplinary actions

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#2: Risk Assessment

What is risk?

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Green Book Principles 6 - 9
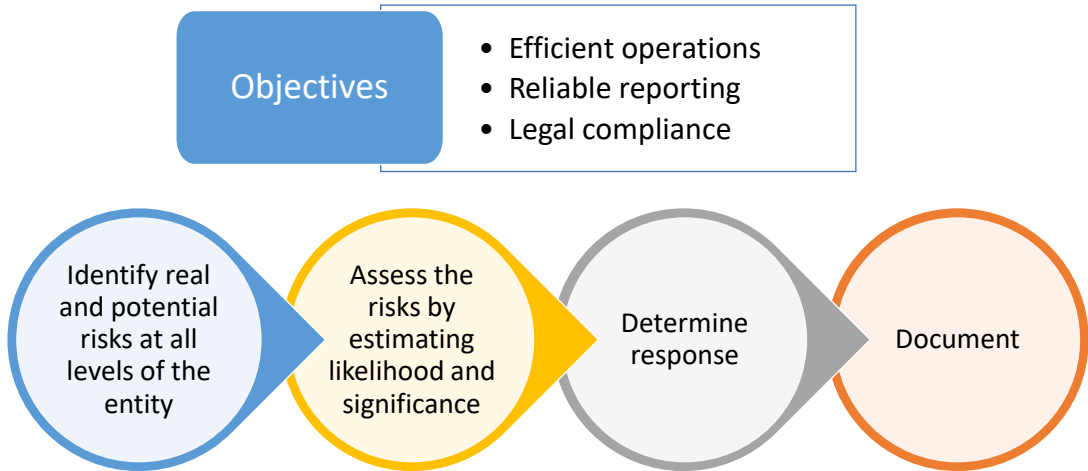
Risk Assessment

6. Management should **define objectives clearly** to enable the identification of risks and define risk tolerances.

7. Management should **identify, analyze, and respond to risks** related to achieving the defined objectives.

8. Management should **consider the potential for fraud** when identifying, analyzing, and responding to risks.

9. Management should identify, analyze, and **respond to significant changes** that could impact the internal control system.
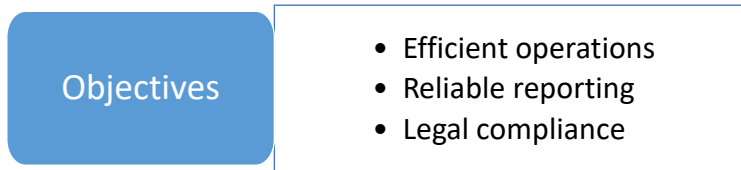
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Risk Assessment

RISK = internal & external events that threaten the accomplishment of objectives

Objectives	• Efficient operations • Reliable reporting • Legal compliance

Identify real and potential risks at all levels of the entity → Assess the risks by estimating likelihood and significance → Determine response → Document

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Identify Objectives

Objectives	• Efficient operations • Reliable reporting • Legal compliance

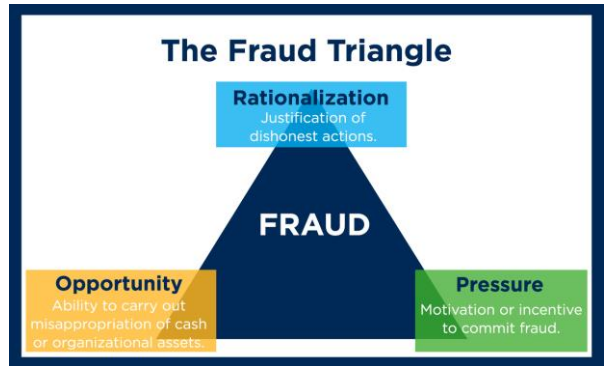| Accounts Payable Objectives	Ensure accuracy of accounts payable inputs
	Safeguard access to accounts payable records
	Reconcile accounting records monthly

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Identify Risks

Inherent Risk

- Cash
- Complexity
- New program or activity

Change Risk

- Operational change
- New personnel
- New board members
- Changed in IT system

The Fraud Triangle

Rationalization
Justification of dishonest actions.

FRAUD

Opportunity
Ability to carry out misappropriation of cash or organizational assets.

Pressure
Motivation or incentive to commit fraud.

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RISK ASSESSMENT QUESTIONNAIRE | ORGANIZATION – WIDE				
Question	**Yes**	**No**	**N/A**	**Comments**
General				
General				
What are our primary objectives?				
What events or conditions can prevent us from achieving these objectives?				
Which of our assets are *most liquid or desirable* and, therefore, in most need of protection?				
Are there certain personnel who pose a fraud risk?				
What are our most complex activities or programs?				
What potential legal liabilities can result from our operations?				
Do we have sufficient insurance? Are employees sufficiently bonded?				
Where do we spend most of our money?				
What changes do we see on the horizon?				
Cash Collection and Billed Receivables				
Where is cash collected?				
Are employees responsible for collecting cash and preparing bank deposits different from those who record cash transactions in the accounting records?				
Can unauthorized employees access cash prior to deposit?				
Are receipts recorded in the accounting system in a timely manner?				
Disbursements				
Is there a clearly defined approval process for all disbursements?				
Are all disbursements properly documented?				
Is the responsibility for acknowledging the receipt of goods or services segregated from those preparing claims and making payments?				
Is a review completed by an individual outside the disbursement process in which the claim amount is				

Identify Risks

1. Unauthorized access to accounts payable records and stored data

2. Missing documents or incorrect information

3. Finance staff lacks sufficient training

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Assess and Rate Risks

- **Likelihood**. Rate the possibility that the risk may occur.
- **Impact**. Rate the severity of the risk should it occur.

Likelihood × Impact = **Risk Priority**

After rating each risk for likelihood & impact, **multiply** to identify which risks are highest priority to control for.

Risk Priority

Likelihood					
5	5	10	15	20	25
4	4	8	12	16	20
3	3	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5
	1	2	3	4	5

Impact

Priority Rank Scale	
Low	1 to 4
Moderate	5 to 9
High	10 to 19
Very High	20+

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Identify Risk Priority

STEP 3: Risk Assessement | Rating + Prioritization

Assess and prioritize risks based on two primary criteria:
→ **LIKELIHOOD** = Possibility of the risk happening AND if possible, how frequently the risk may occur.
→ **IMPACT** = Effect on ability to meet objectives AND the magnitude of consequence if risk occurs.

LIKELIHOOD | Risk Rating Scale

Rating	Likelihood	Description
1	Rare	Highly unlikely. Unless extraordinary circumstances, likely will never happen.
2	Unlikely	Not expected; slight possibility it may occur at some time.
3	Possible	May occur sometimes; history of casual occurrence here or similar organizations.
4	Likely	Strong possibility the event will occur; frequent occurrence here & elsewhere
5	Frequent	Very likely. Expected to occur in most circumstances; precedent here & elsewhere

IMPACT | Risk Rating Scale

Rating	Impact	Financial	Operational Interruption	Reputation and Image
1	Insignificant	Minimal	Not noticeable; critical systems unavailable for less than one hour	Negligible
2	Minor	Loss of $X to $Y	Inconvenient; criticial systems unavailable for several hours	Unfavorable local media coverage possible
3	Moderate	Loss of $X to $Y	Employee dissatisfaction; critical systems unavailable for less than one day	Adverse statewide media coverage possible
4	Major	Loss of $X to $Y	Prohibits provision of service to customers; prolonged outages of critical systems	Adverse and extended media coverage possible, nationwide
5	Catastrophic	Loss of more than $XYZ	Threatens ability to operate at all; critical systems unavailable for multiple days at a crucial time	Demand for government inquiry

Likelihood × Impact = **Risk Priority**

After rating each risk for likelihood & impact, **multiply** to identify which risks are highest priority to control for.

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Rank Risks By Priority

▲	A	B	C	D	E	F	G
1	**Priority Rating Worksheet**				**Priority Rank Scale**		
2					Low	1 to 4	
3	*Fill out risks, rate the likelihood and impact*				Moderate	5 to 9	
4	*for each, and the worksheet will output*				High	10 to 19	
5	*priority rating & description.*				Very High	20+	
6							
7	**Risk Description**	**Likelihood Rating**	**Impact Rating**	**Priority Rating**	**Priority Description**	**Control?** ☑	
8	Entry of accounts payable data is duplicative or inaccurate.	3	4	12	High		
9	Only the business manager knows how to conduct payroll and is authorized to review and approve payments.	5	4	20	Very High		
10	Personnel spend too much time on personal internet use resulting in lost productivity.	3	1	3	Low		
11	Unauthorized individuals may gain access to facilities.	3	3	9	Moderate		
12				0	Low		
13				0	Low		

High impact and likely to occur

Low impact and unlikely to occur

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Determine Subsequent Action

What controls can reduce the risk?

Will the benefit outweigh the cost?

Accept the risk by deciding not to act

Reduce the risk by implementing control activities to lessen or mitigate the risk

Avoid the risk by deciding not to conduct a specific activity due to its associated risk

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Document Risk Assessment

Risk Management Template

Objectives	Risks to Achieving Objectives	Risk Priority	Controls in Place	Control Deficiencies	Control Activities
Instructions: List primary objectives across all the functions of your unit	*Consider why objectives may not be achieved*	*Reference: Risk Priority Rating Worksheet*	*For each risk, identify controls that exist to prevent the risk from occurring and to help detect if the risk is occurring.*	*Identify places where current controls may not be sufficient to mitigate risk or may not be working effectively.*	*If needed, list corrective actions that will be taken.* ☑ Accept ☑ Reduce ☑ Avoid
Example: Payments to vendors are accurate and timely.	1) Duplicate copies of invoices are not clearly marked resulting in double entry and possible duplicate payments.	High	The Accounts Payable records are periodically reconciled to open purchase orders	Insufficient segregation of duties.	1) Clearly delegate roles and responsibilities within accounts payable 3) Management reconciles accounts payable entries with disbursements monthly.
Example: Payroll is conducted securely and accurately.	Only the Finance Officer knows the payroll system and is authorized to review and approve payments.	Very High	Access to payroll application is appropriately controlled by secure user login and password.	There should be at least one more person who knows how to conduct payroll, and another person who reviews before authorizing payout each pay period.	1) Train another employee on how to conduct payroll 2) Establish a new approval system to double-check numbers before disbursement each pay period

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#3: Control Activities

The policies, procedures, and techniques implemented to help prevent identified risks from occurring or detecting them if they do.

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Green Book Principles 10 - 12

Control Activities

10. Management should design control activities to achieve objectives and respond to risks.

11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

12. Management should implement control activities through policies.

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Control Activity "Toolkit"

Policies and Procedures

Segregation of Duties

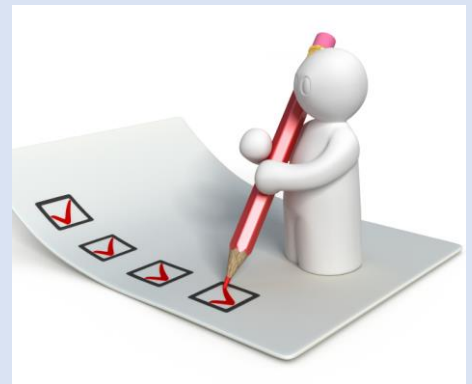Authorizations/Approvals

Reconciliations

Documentation

Physical Controls

IT Controls

Management Review

Employee Training

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1. Policies & Procedures

- **Adopt broad policies and document procedures**

- Written policies define objectives and may include processes for "how" objectives are accomplished.
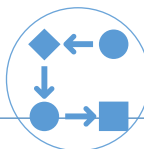- Review existing local policies and procedures for updates and changes.

Policies are a KEY Control Activity!!

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Establish Policies & Procedures for General Operations & Significant Transaction Cycles

- Financial reporting
- Cash receipts
- Accounts receivable
- Cash disbursements
- Payroll
- Investments
- Capital assets
- Debt

Financial Transaction Policies

- Code of Conduct
- Conflict of interest
- Internal Control
- HR (hiring, raises, job descriptions)
- Grant Management
- Procurement and contract management
- P-Card

General Operational Policies

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Segregate Incompatible Duties

Separate responsibilities to ensure that no single person has control of a transactional process

Authorization

Custody

Record-Keeping

Reconciliation

No one person should control more than two categories.

No one person should perform both record-keeping and reconciliation.
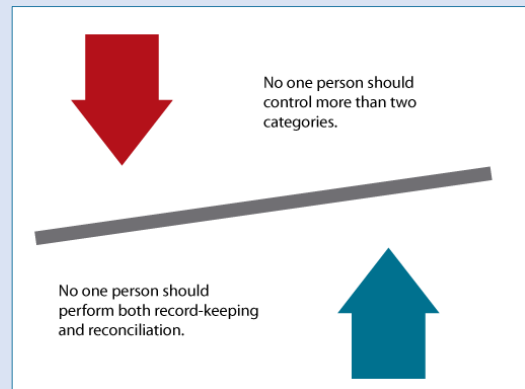
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	Authorization	Custody	Record-keeping	Reconciliation
Signing of checks	Joe			
Mailing of checks		Lisa		
Approval of debit memos	Joe			
Approval of access to master vendor files	Joe			
Sub-ledger and account reconciliation				Lynn
Approval of Journal entries	Joe			
Recording of Journal Entries			Lynn	
Posting of Debit Memos			Lynn	

Which of Lynn's duties are incompatible?

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Compensating Controls

Used when proper segregation of duties is not possible.

Management or Governing Bd. MUST perform the compensating controls!

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Authorization & Approvals

Management determines which activities require approval.

Ensure that transactions are approved and executed only by employees acting within the scope of their authority granted by management.

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Documentation & Record Keeping

Establish documentation and record-keeping system to ensure that accounting records and supporting documentation are accessible and retained.

- Customer receipts
- Deposit slips
- Executed contracts
- Bid documents for procurements
- Minutes of board meetings
- Bank reconciliations

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- Reconciliation should be performed by a person with no record keeping responsibility
- Reconcile all accounts and transactions:
  - credit card transactions, accounts payable, accounts receivable, payroll, fixed assets, special revenue, and other areas against the general ledger, or balance sheet
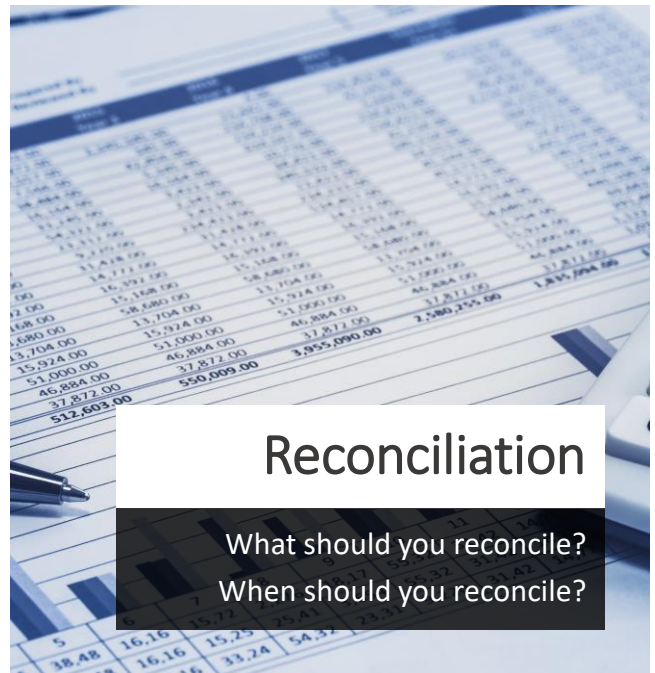
Reconciliation

What should you reconcile?
When should you reconcile?

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Physical Controls

Restrict Access to Valuables!

- Cash
- Inventory
- Buildings

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IT Controls

- Establishes electronic security management systems
- Install necessary firewalls
- Access controls/passwords
- Data entry controls
- Terminate systems access when an employee leaves
- Require passwords to be changed periodically

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#4: Information and Communication

For internal controls to be effective, information must flow up and down, and across the organization.

Information & Communication

13. Management should **use quality information** to achieve the entity's objectives.

14. Management should **internally** communicate the necessary quality information to achieve the entity's objectives.

15. Management should **externally** communicate the necessary quality information to achieve the entity's objectives.

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#4 Information & Communication

- **For internal controls to be effective, information must flow up and down, and across the organization.**

Communication may explain:	Communication must be:
Policies and procedures	Appropriate
Specific goals and objectives	Accurate
Importance of Internal Controls	Timely
Expectations for behaviors	Current
Channels of communication	Accessible

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#5: Monitoring

The review of a unit's activities and transactions to assess the quality of performance over time and to determine whether controls are effective.

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Monitoring

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

17. Management should remediate identified internal control deficiencies on a timely basis.

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Remember—Internal Control Is a Process

Review Current Control Environment

Identify and rank risk

Use control activities to mitigate risks

Communicate internal controls internally and externally

Monitor!

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Which Component is the Most Important?
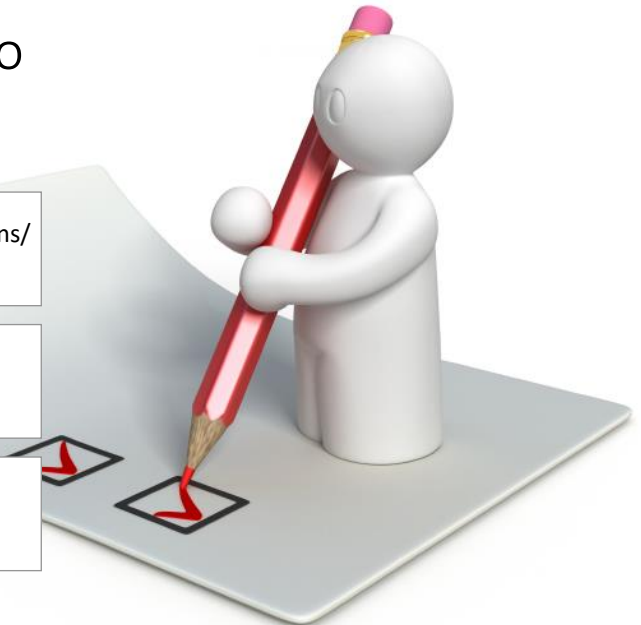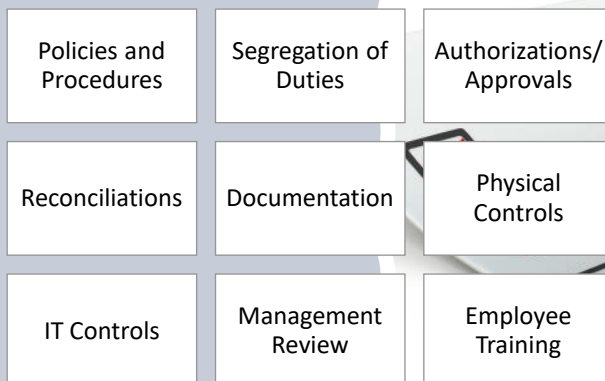
1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

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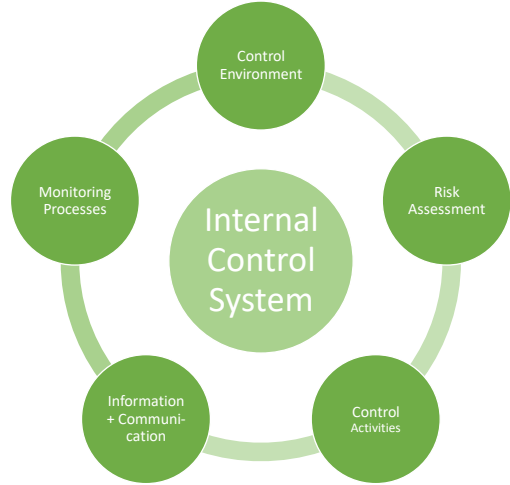## Part III. A Deep Dive into Control Activities

Policies and Procedures	Segregation of Duties	Authorizations/ Approvals
Reconciliations	Documentation	Physical Controls
IT Controls	Management Review	Employee Training

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Financial Management Internal Controls

Budgeting for Operating/Capital Expenditures

Cash Management and Investments

Accounts Receivable & Collections

Accounts Payable & Disbursements

Payroll

Purchasing/Contracting/Property Disposal

Tax Collection

Property and Equipment

Investments

Capital Assets

Internal Control System — Control Environment, Risk Assessment, Control Activities, Information + Communication, Monitoring Processes
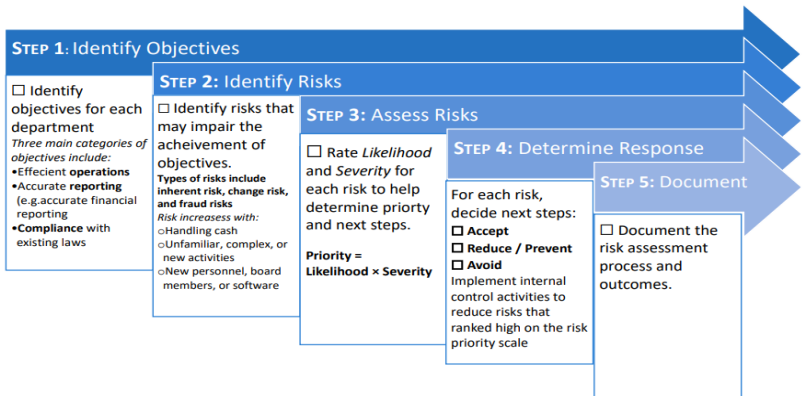
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Conduct a Risk Assessment

- Budgeting & Accounting
- Cash Management/Investments
- Accounts Receivable & Collections
- Accounts Payable and Disbursements
- Payroll
- Contracts and procurement
- Municipal Property and Equipment
- Property Tax Collections

RISK MANAGEMENT FLOW CHART

STEP 1: Identify Objectives

☐ Identify objectives for each department
Three main categories of objectives include:
• **Effecient operations**
• **Accurate reporting** (e.g.accurate financial reporting
• **Compliance** with existing laws

STEP 2: Identify Risks

☐ Identify risks that may impair the acheivement of objectives.
Types of risks include inherent risk, change risk, and fraud risks
Risk increases with:
○Handling cash
○Unfamiliar, complex, or new activities
○New personnel, board members, or software

STEP 3: Assess Risks

☐ Rate *Likelihood* and *Severity* for each risk to help determine priorty and next steps.

Priority =
Likelihood × Severity

STEP 4: Determine Response

For each risk, decide next steps:
☐ **Accept**
☐ **Reduce / Prevent**
☐ **Avoid**
Implement internal control activities to reduce risks that ranked high on the risk priority scale

STEP 5: Document

☐ Document the risk assessment process and outcomes.

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Control Activities Mitigate Risks

Control Activities "Toolkit"

- Written Policies/Procedures
- Segregation of Duties
- Authorizations/Approvals
- Reconciliations
- Documentation/Record Retention
- Physical Controls
- IT Controls
- Inventory Counts
- Management Review
- Training
- Audit

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Cash Receipts

"Cash" includes all items that are acceptable for deposit in a bank: paper money, checks, and money orders.

Objectives

1. Access to cash and cash receipts is restricted
2. Collections are accurately recorded to the Daily Collection Report
3. Cash is timely deposited in accordance with G.S. 159-32
4. Accounting records are reconciled regularly to bank statements and differences are investigated

Risks to Achieving Objectives

- Is there a cash receipt policy?
- Has the authority to collect cash been delegated to specific employees?
- Are new employees trained in cash-handling processes?
- Is staff familiar with statutory requirements over cash deposits?
- Are documentation requirements communicated?

Cash is the most liquid asset of a government and the most likely asset to be misappropriated

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Cash Receipts POLICY

Receipt	Deposit	Recording	Reconciliation
• Each cashier has their own cash drawer. • Payments are collected and logged in the Daily Collection Report, noting the name of the payer, date, amount, and form of payment. • A prenumbered receipt is issued.	• All funds deposited daily. • Deposit slip is prepared in duplicate. • The bank shall validate the duplicate deposit slip.	• The validated deposit slip is compared to the Daily Collection Report. • The deposit amount is recorded to the General Ledger.	• The general ledger is reconciled against account balances on a monthly basis.

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Cash Receipts PROCEDURES

Example:

- The city has 3 cashiers. Cashiers 1 and 2 are general cashiers and collect everything except utility payments. Cashier 3 is the utility clerk and collects only utility payments.

- Cashiers immediately stamp all checks "for deposit only." Cashiers log receipts into the Daily Collection Report and issue prenumbered receipts for all collections. Receipt lists date, amount, payer, proper accounting code, cash or check and is signed by cashier. A copy is given to every customer and retained with Daily Collection Report.

- Daily Collection Reports are given to the city clerk who makes up the bank deposit slip in duplicate and deposits the funds.

- The Daily Collection Reports and verified deposit slip are given to the Bookkeeper, who enters the deposit into the general ledger.

- The Finance Director will reconcile the daily cash reports, deposit slips, and bank statements on a monthly basis.

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Cash Receipts PROCEDURES

Example:

General Collection Process

- The Town Hall Administrative Assistant receives all cash, (i.e., tax payments, permits, parks and recreation fees, etc.) and records all of those cash transactions on a Daily Collection Report.
- The Town Clerk prepares two copies of the deposit slip and deposits the cash daily in accordance with G.S. 159-32 to XYZ Bank. The bank verifies the deposit amount on the second deposit slip.
- The Town Clerk updates the General Ledger.
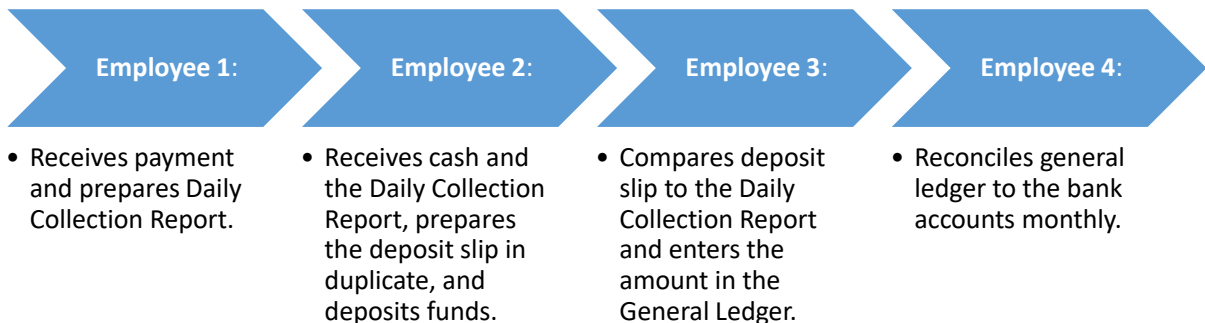- The Finance Officer reconciles the Daily Collection Report, deposits, and the general ledger weekly.

Departmental Collection Process

Development permit fees are collected in the Planning Department and all money collected is turned over to the Town Hall Administrative Assistant on a daily basis. The money is verified for accuracy and deposited along with all other cash. (Now the general collection process takes over).

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Segregation of Duties

Employee 1:

- Receives payment and prepares Daily Collection Report.

Employee 2:

- Receives cash and the Daily Collection Report, prepares the deposit slip in duplicate, and deposits funds.

Employee 3:

- Compares deposit slip to the Daily Collection Report and enters the amount in the General Ledger.

Employee 4:

- Reconciles general ledger to the bank accounts monthly.

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True or False: The person logging the deposit in the general ledger each day should be different from the person performing monthly reconciliations.

<p align="center">TRUE</p>

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Cash Receipts

Cash Management Policy & Procedures:
- Identify the departments and activities where cash and payments are collected. Detail the full collection and deposit process.

Authorization:
- Finance officer authorizes personnel to collect, deposit, and reconcile cash accounts.

Segregate Duties:
- The person collecting funds and preparing the Daily Collection report should not be the same as the person preparing the deposit slip and making the deposit.
- One cash box per cashier.

Documentation:
- Maintain Daily Collection Report, noting the name of the payer, date, amount, and the form of payment
- Deposit slips prepared in duplicate and verified
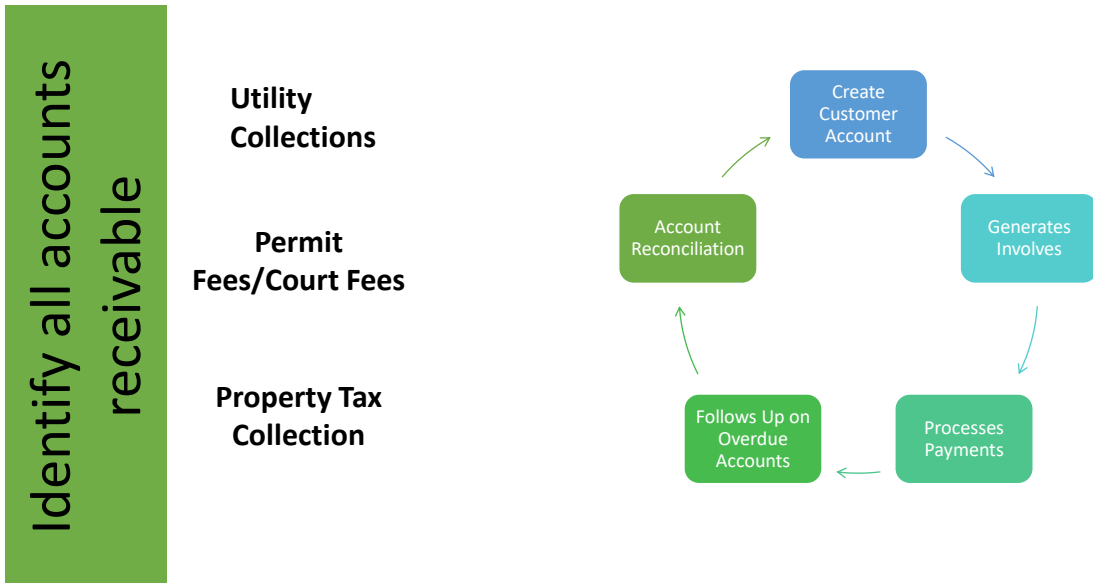- Issue prenumbered receipts and retain a copy

Reconciliation:
- Reconcile the general ledger with bank account balances on a monthly basis.

Physical Controls:
- Lockbox for cash drawers.

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Accounts Receivable

Identify all accounts receivable

Utility Collections

Permit Fees/Court Fees

Property Tax Collection

Create Customer Account → Generates Involves → Processes Payments → Follows Up on Overdue Accounts → Account Reconciliation → (back to Create Customer Account)

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Accounts Receivable Objectives and Risks

Objectives

o Duties are appropriately segregated

o Transactions are accurately recorded in the subsidiary or general ledger.

o Documentation is maintained

o Reconciliations are performed monthly

Risks

o Are there adequate processes for collecting and recording accounts receivable?

o Are billing, collection and posting functions performed by separate employees or departments?

o Are invoices prepared by various town departments forwarded to the treasurer or finance office for entry into the accounts receivable ledger?

o Are all accounts receivable recorded in the general ledger?

o Are subsidiary ledgers reconciled to the general ledger control account on a monthly basis?

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Control Activities

Accounts Receivable

Policy	Adopt an accounts receivable policy and designate specific roles and responsibilities for the receivable process.
Segregation of duties	To the extent possible, separate duties between the collections, billing, and account reconciliation.
Rotation of duties	For applicable enterprise revenues, meter readers assignments should be periodically rotated on a surprise basis.
Documentation	1) Maintain a subsidiary ledger of customer accounts, including all invoices and payments. 2) All credits, adjustments, refunds, and write-offs should be properly documented and authorized by management prior to entry into the receivable records.
Reconciliation	All subsidiary records should be reconciled with the control accounts on a monthly basis.
Management review	All delinquent accounts should be reviewed by an employee outside of the collection function.

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Accounts Payable & Disbursements

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Disbursements: Objectives and Risks

Objectives

- Obligations are legally appropriated
- Receipt of good or service is verified
- All authorized transactions are entered into the accounting system
- Payable transactions are accurately coded in the accounting system as to account, amount, and period
- Disbursements are made to authorized contractors/vendors
- Access to forms of cash disbursements is restricted

Risks

- Have employees been trained to use accounting technology?
- Are duties segregated between authorization, custody, and record-keeping functions?
- Is supporting documentation reviewed prior to disbursement (POs, invoices, and receiving reports)?
- Is the authority to disburse funds clearly established?
- Are contractor invoices reviewed for accuracy (quantity, price, tax, other terms)?
- Are there controls in place to flag duplicate invoices and avoid duplicate payments?

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Accounts Payable & Disbursements

Control Activities

Policy:
- Document disbursement/invoice processing process. Include a year-end cut-off for all liabilities, including accounts payable.

Segregate duties:
- Separate record-keeping functions (entering liabilities) and payment authorization functions
- Separate record-keeping and reconciliation functions

Matching:
- Establish a verification process to confirm the accuracy of an invoice before initiating disbursement approval.
  - Two-way matching
  - Three-way matching

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Control Activities

Accounts Payable & Disbursements

Disbursement Process:
- Require two signatures on all checks per G.S. 159-25(b); the second signatory should be someone who does not have access to the accounting records.
- Separate payment initiation, payment preparation, and mailing responsibilities.
- The person that sets up new vendors in the accounting system or edits information on existing vendors, should not be the same as the person writing the checks.

Physical Controls:
- Control access to forms of disbursement (e.g., lock unused checks).

Management Review:
- Select from the file a sample of invoices from several vendors/contractors and verify that
(1) the accounts are active and relate to current goods/services rendered;
(2) payments have been duly authorized and approved;
(3) each vendor is a legitimate third-party.

Reconciliation:
- All accounts payable subsidiary ledgers should be reconciled to the general ledger on a monthly basis. The general ledger should be reconciled against account balances.
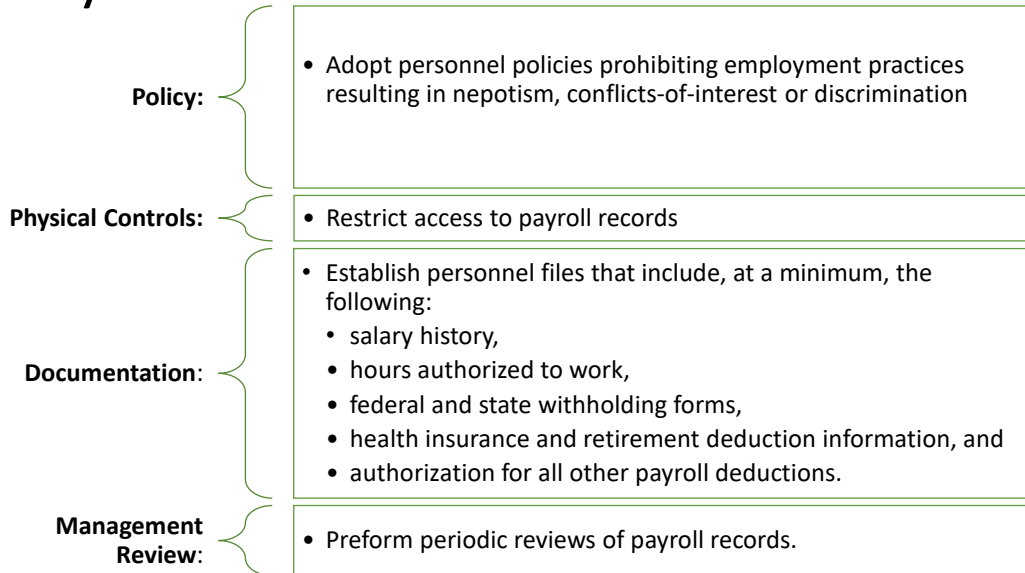
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Payroll

- Ghosts on payroll
- Diversion of tax payments
- Overpayments, false wages, false pay rates
- Diverting wages
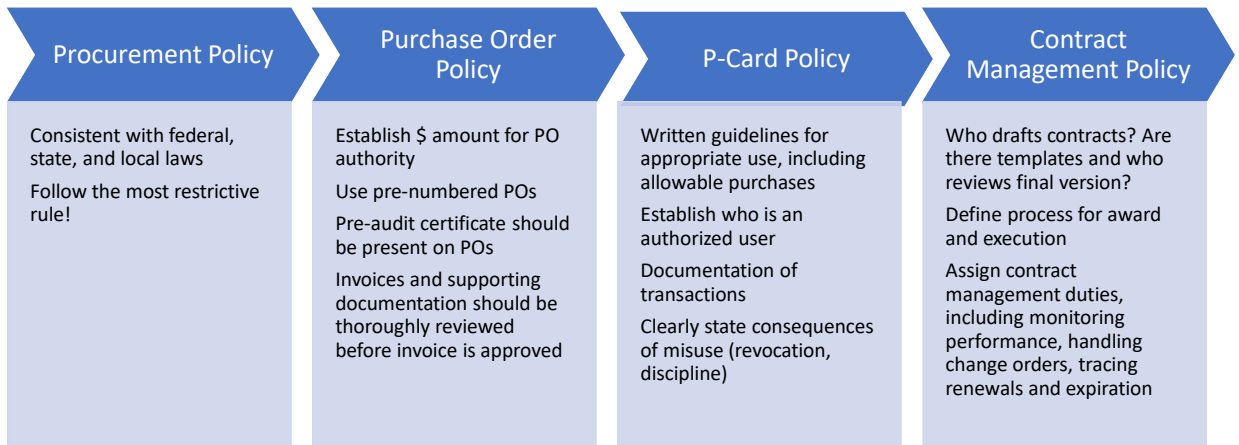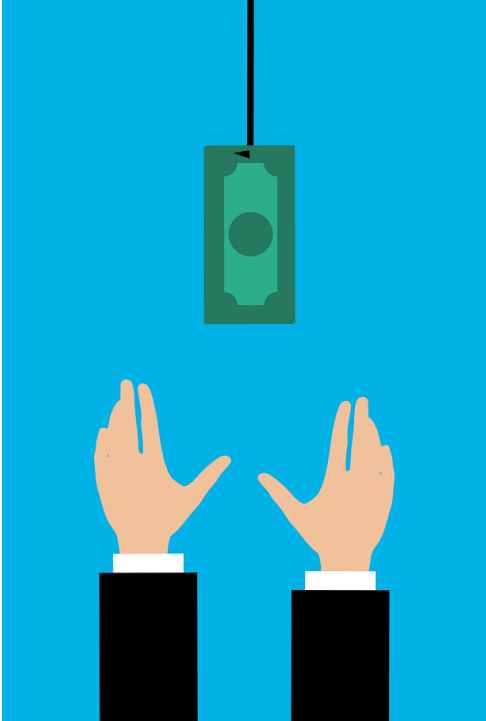- Keeping former employees on payroll

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Control Activities

Payroll

Policy:
- Adopt personnel policies prohibiting employment practices resulting in nepotism, conflicts-of-interest or discrimination

Physical Controls:
- Restrict access to payroll records

Documentation:
- Establish personnel files that include, at a minimum, the following:
  - salary history,
  - hours authorized to work,
  - federal and state withholding forms,
  - health insurance and retirement deduction information, and
  - authorization for all other payroll deductions.

Management Review:
- Preform periodic reviews of payroll records.

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Written Policies and Procedures

Procurement Policy

Consistent with federal, state, and local laws

Follow the most restrictive rule!

Purchase Order Policy

Establish $ amount for PO authority

Use pre-numbered POs

Pre-audit certificate should be present on POs

Invoices and supporting documentation should be thoroughly reviewed before invoice is approved

P-Card Policy

Written guidelines for appropriate use, including allowable purchases

Establish who is an authorized user

Documentation of transactions

Clearly state consequences of misuse (revocation, discipline)

Contract Management Policy

Who drafts contracts? Are there templates and who reviews final version?

Define process for award and execution

Assign contract management duties, including monitoring performance, handling change orders, tracing renewals and expiration

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KEY TAKEAWAYS

- Adopt written policies and document procedures
- Provide appropriate training to employees
- Segregate duties when possible
- Rotate duties in positions susceptible to fraud
- Establish clear lines of authority
- Continually review work processes
- Monitor changed circumstances to determine new risk

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Thank You! Questions?

Eliminate opportunity and close the door on the chance for fraud!

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