

INDIANA STATE BOARD OF ACCOUNTS



DEVELOPING INTERNAL CONTROLS

May 7, 2020 AIM Webinar Series



CONTACT INFORMATION

Todd Caldwell, CFE
Director of Audit Services

Susan Gordon, CPA, CFE
Director of Audit Services



cities.towns@sboa.in.gov

317-232-2513





DEVELOPING INTERNAL CONTROLS

- ✓ **Basics of Internal Control**
- ✓ **Internal Control Objectives**
- ✓ **5 Components of Internal Control**
- ✓ **Best Practices**
- ✓ **COVID-19 Considerations**

INDIANA STATE BOARD OF ACCOUNTANTS - 2020



BASICS OF INTERNAL CONTROLS

What are Internal Controls

- Internal controls are processes executed by officials and employees that are designed to provide reasonable assurance that the objectives of the political subdivision will be achieved.
- Internal control is a basic element fundamental to the organization, rather than a list of added on tasks.
- Adaptable process that is a means to an end, not an end in itself.
- Dependent on officials & employees for effective implementation
- Achievement of objectives

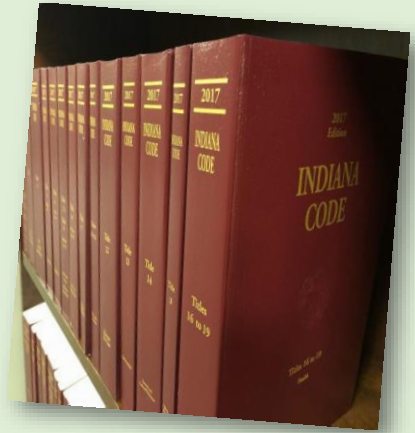
INDIANA STATE BOARD OF ACCOUNTANTS - 2020



BASICS OF INTERNAL CONTROLS

Statutorily, internal controls . . .

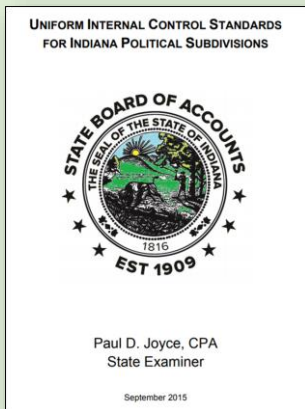
- IC 5-11-1-27 – to promote government accountability & transparency
- IC 5-11-1-27(e) – SBOA defines the acceptable minimum level of standards



INDIANA STATE BOARD OF ACCOUNTANTS - 2020



BASICS OF INTERNAL CONTROLS



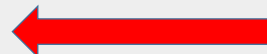
Political Subdivisions

General Overview

Internal Control Standards

Charter Schools

Cities

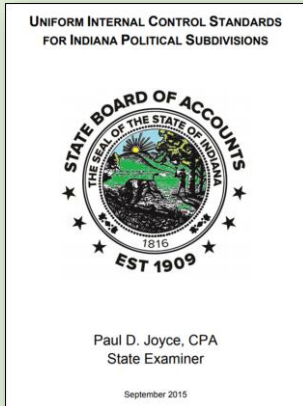


www.in.gov/sboa/files/UniformInternalControlStandards.pdf

INDIANA STATE BOARD OF ACCOUNTANTS - 2020



BASICS OF INTERNAL CONTROLS



Internal Control Standards ▼

Standards

Indiana Code 5-11-1-27(e) provides that through the compliance guidelines authorized under [C 5-11-1-24] the state board of accounts shall define the acceptable minimum level of internal control standards for internal control systems of political subdivisions, including the following: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, (5) Monitoring.

In response, the SBOA developed the Uniform Internal Control Standards for Indiana Political Subdivisions manual, which contains the acceptable minimum level of internal control standards.

Generally Accepted Government Auditing Standards (the "Yellow Book") prohibits the SBOA from prescribing the actual internal control procedures to be used by a political subdivision. However, the manual provides examples and case studies to demonstrate implementation strategies.

Internal Control Policy and Required Certifications

After June 30, 2016 [C 5-11-1-27(g)] provides that the legislative body of each political subdivision must adopt the minimum internal control standards as defined by SBOA. Additionally, the legislative body must ensure that personnel receive training concerning the internal control standards and procedures adopted by the political subdivision.

At the time of submission of the Annual Financial Report (AFR) through Gateway, the fiscal officer must certify that the minimum internal control standards have been adopted and that personnel who are not otherwise on leave status have received training regarding these standards and procedures. Instructions for filing will be found as part of the AFR submission.

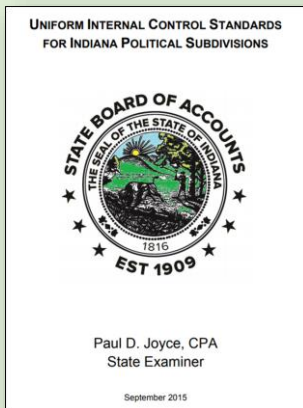
Apart from the required certification to be filed by the fiscal officer in Gateway during the submission of the 2016 AFR due March 1, 2017 (or August 29, 2017 for Schools), a certification for each elected official, appointee, and employee that meets the definition of personnel in [C 5-11-1-27(c)], should be signed as evidence for their individual training. A certification form is provided below and can also be found under the Appendix found in the Uniform Internal Control Standards for Indiana Political Subdivisions manual. These certifications are to be maintained by the political subdivision on-site.

www.in.gov/sboa/files/UniformInternalControlStandards.pdf

INDIANA STATE BOARD OF ACCOUNTS - 2020



BASICS OF INTERNAL CONTROLS



SECTION ONE

Minimum Level of Internal Control Standards

- Five Components
- Seventeen Principles

SECTION TWO

Approved Training Materials

- Video Presentation
- Examples
- Case Studies

www.in.gov/sboa/files/UniformInternalControlStandards.pdf

INDIANA STATE BOARD OF ACCOUNTS - 2020



INTERNAL CONTROL OBJECTIVES

Operations

Analyze operational and performance goals along with the effectiveness and efficiencies of operation, including the safeguarding of assets

Reporting

Considers both financial and non-financial information, internal and external to the unit, with an expectation of reliability, accountability and transparency

Compliance

Assure adherence to laws and regulations

INDIANA STATE BOARD OF ACCOUNTANTS - 2020



INTERNAL CONTROL OBJECTIVES

Operations

Analyze operational and performance goals along with the effectiveness and efficiencies of operation, including the safeguarding of assets

Reporting

Considers both financial and non-financial information, internal and external to the unit, with an expectation of reliability, accountability and transparency

Compliance

Assure adherence to laws and regulations

INDIANA STATE BOARD OF ACCOUNTANTS - 2020



INTERNAL CONTROL OBJECTIVES

Operations

Analyze operational and performance goals along with the effectiveness and efficiencies of operation, including the safeguarding of assets

Reporting

Considers both financial and non-financial information, internal and external to the unit, with an expectation of reliability, accountability and transparency

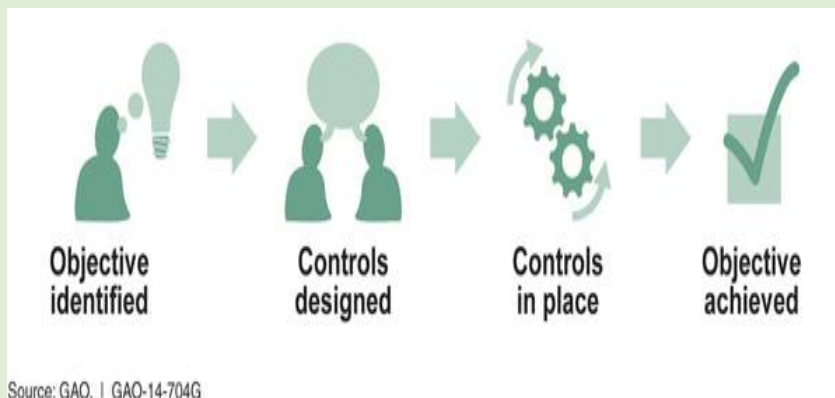
Compliance

Assure adherence to laws and regulations

INDIANA STATE BOARD OF ACCOUNTS - 2020



INTERNAL CONTROL OBJECTIVES



Source: GAO. | GAO-14-704G

INDIANA STATE BOARD OF ACCOUNTS - 2020



COMPONENTS OF INTERNAL CONTROL

Internal Control Components:

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



INDIANA STATE BOARD OF ACCOUNTS - 2020



1. CONTROL ENVIRONMENT

Sets the “tone at the top”, influencing the control consciousness of its people.

Foundation for all other components, providing discipline & structure.



Factors:

- Integrity & ethical values
- Commitment to competence
- Management philosophy & operating style
- Organizational structure
- Assignment of authority & responsibility
- Human resource policies and procedures

INDIANA STATE BOARD OF ACCOUNTS - 2020



2. RISK ASSESSMENT

Identification & analysis of relevant risks to achievement of objectives, forming a basis for determining how the risks should be managed.



INDIANA STATE BOARD OF ACCOUNTS - 2020



2. RISK ASSESSMENT - CONTINUED

Objectives must be established prior to the identification of risks to their achievement & to take necessary actions to manage risks



Assessment of risk includes:

- Establishing the significance of a risk
- Assessing the likelihood or frequency of the risk occurring
- Consideration of how the risk should be managed

INDIANA STATE BOARD OF ACCOUNTS - 2020



3. CONTROL ACTIVITIES

Policies & procedures that help ensure mgmt. directives are carried out.

Ensure necessary actions are taken to address risks to achievement of objectives



INDIANA STATE BOARD OF ACCOUNTS - 2020



3. CONTROL ACTIVITIES - CONTINUED

Occur throughout the city/town, at all levels & in all functions.

Includes:

- Segregation of duties
- Approvals
- Authorizations
- Verifications
- Reconciliations
- Reviews of performance



INDIANA STATE BOARD OF ACCOUNTS - 2020



4. INFORMATION & COMMUNICATION

Emphasizes the importance of quality information

City/town internally communicates information

Communicates externally



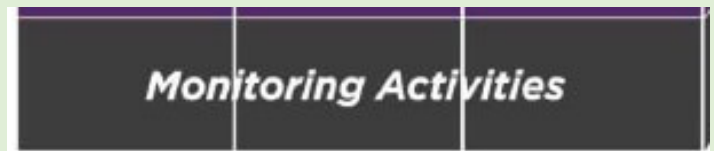
INDIANA STATE BOARD OF ACCOUNTS - 2020



5. MONITORING ACTIVITIES

Ongoing Evaluations – built into various levels of your unit to provide timely information

Separate Evaluations – conducted periodically



INDIANA STATE BOARD OF ACCOUNTS - 2020



COMPONENTS OF INTERNAL CONTROL



<https://allthatsaidisred.wordpress.com/2011/12/07/internal-controls-an-overview/>

INDIANA STATE BOARD OF ACCOUNTS - 2020



NOW WHAT ??

Don't reinvent the wheel

- Identify existing controls and procedures



Document, document, document

- Write down who does what.
- Make lists

INDIANA STATE BOARD OF ACCOUNTS - 2020



REFERENCES

Sample Internal Control Policies:

Indiana

New Castle www.cityofnewcastle.net/egov/documents/1465396308_11682.pdf

Camden www.townofcamden.org/wp-content/uploads/2014/09/Internal-Controls-Policy-and-Procedures.pdf

LaPorte www.cityoflaporte.com/DocumentCenter/View/1472/Ord--Internal-Control-Standards-5-11-2016?bidId=

Outside Indiana

Lakeland, Tennessee www.lakelandtn.gov/DocumentCenter/View/5531

Franklin, Tennessee www.franklintn.gov/home/showdocument?id=28021

INDIANA STATE BOARD OF ACCOUNTS - 2020



REFERENCES

www.mtas.tennessee.edu/download/file/fid/48575

- Downloads pdf – is geared toward statutory provisions in Tennessee but methods could be used for Indiana municipalities

www.vlct.org/resource/internal-financial-controls-checklist-municipalities

- Vermont has a league of cities and towns with this resource document

www.auditnet.org/audit-library/auditnet-internal-controls-primer

www.hudoig.gov/sites/default/files/Internal%20Controls%20Integrity%20Bulletin%20CPD.pdf

bizfluent.com/how-5120417-design-internal-control-system.html

INDIANA STATE BOARD OF ACCOUNTS - 2020



REFERENCES

Indiana State Board of Accounts – Uniform Internal Control Standards for Indiana Political Subdivisions

<https://www.in.gov/sboa/files/UniformInternalControlStandards.pdf>

<https://youtu.be/L0N80PBbPHQ>

COSO – Committee of Sponsoring Organizations of the Treadway Commission

www.coso.org

U.S. Government Accounting Office “Greenbook”

www.gao.gov/greenbook

INDIANA STATE BOARD OF ACCOUNTANTS - 2020