Internal Controls

W. Tyler Michael, CPA

Director of Communications

State Board of Accounts

Internal Controls

- **IC 5-11-1-27**
- Intent:

  - Promote government accountability and transparency

  - Ensure all public officials and employees serve the people with responsibility, integrity, loyalty, and efficiency

  - Assist governmental units in accomplishing their mission and objectives

Internal Controls (continued)

- Resources for Reference
  - SBOA Internal Controls Standards webpage
    - www.in.gov/sboa/5071.htm and/or www.in.gov/sboa/4445.htm

  - SBOA Internal Controls webinar
    - Embedded on above pages and can be found on YouTube: https://www.youtube.com/watch?v=L0N80PBbPHQ

  - Standards for Internal Control in the Federal Government (the Green Book)
    - www.gao.gov/assets/670/665712.pdf

Internal Controls (continued)

- Roles Assigned by Statute
  - State Board of Accounts
    - Define and develop the acceptable minimum level of internal controls standards
    - Develop or designate approved personnel training materials
  - Township Board
    - Ensure the minimum level of internal control standards are adopted
    - Ensure personnel receive training concerning the internal control standards and procedures that were adopted by the Board
  - Trustee (in Gateway AFR in 2017)
    - Certify that the minimum level of internal control standards have been adopted by the Board
    - Certify that personnel have received the required training on the standards and procedures
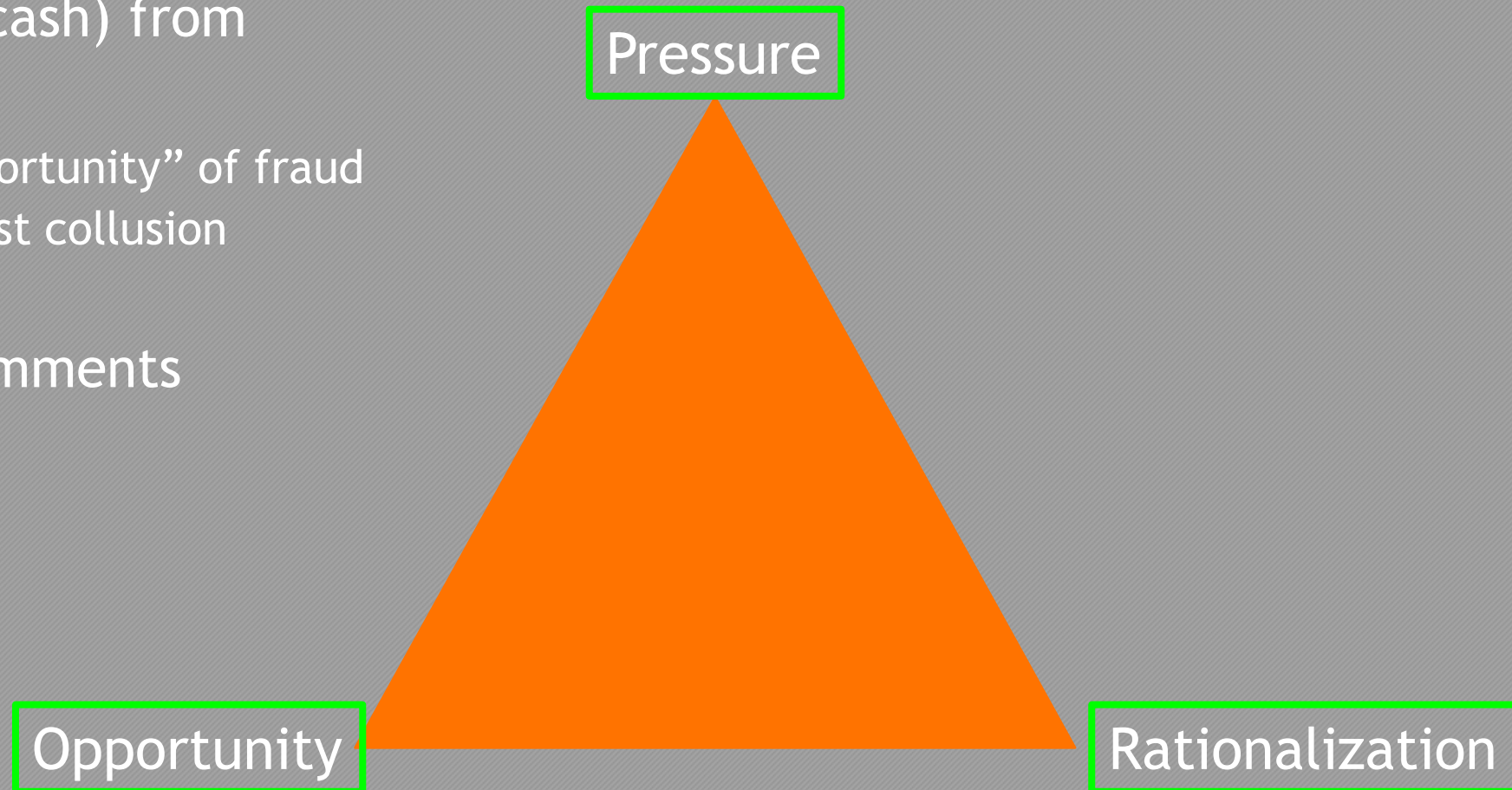
Internal Controls (continued)

- What happens if you are in noncompliance with the statute?
  - After June 30, 2016, SBOA **will**

    - Issue a comment in the audit report

    - If during the second review period, you still have not complied, you will have 60 days to comply and let us know

    - If you still don't, we will notify the DLGF and they will not approve a budget or additional appropriations until you comply

Internal Controls (continued)

- What is Internal Control?
  - A conceptual process that is applied to a wide range of situations in a wide range of environments
  - A process executed by officials and employees that is designed to provide reasonable assurance that the objective of the political subdivision will be achieved
  - Includes the reduction of risk association with fraud as well as a safeguard of resources against loss due to waste, abuse, mismanagement, or errors
  - It is a basic element fundamental to the organization, rather than a list of added on tasks
  - It is a check and balance system over operations, promoting operational effectiveness and efficiency
  - It is focused on the achievement of objectives
  - It is dependent on official and employees for effective implementation
  - **A system that produces reliable financial and management date**
  - It ensures accuracy and timeliness in reporting
  - It promotes compliance with laws

Benefits of Internal Controls

- Protect assets (i.e. cash) from

   misuse, theft, etc.
   - Eliminates the "Opportunity" of fraud
   - Does not work against collusion

- Lack of Findings/Comments

Pressure

Opportunity

Rationalization

Internal Controls (continued)

- Components of Internal Controls
  - Control Environment
    - 'Tone at the top'
  - Risk Assessment
    - Where could things go wrong?
  - Control Activities
    - Actual procedures performed
  - Information and Communication
    - 2 Way
  - Monitoring
    - Continuous process

Control Environment "Tone at the Top"

- Sets the tone of the Township
- It is the foundation of all other components, providing discipline and structure
- Control Environment Factors:
  - Integrity and Ethical Values
  - Commitment to Competence
  - Township Board
  - Management Philosophy and Operating Style
  - Organization Structure
  - Assignment of Authority and Responsibility
  - Human Resource Policies and Procedures

Risk Assessment

- Risk is the possibility that an event will occur and adversely affect the achievement of objectives
  - Objectives must be established prior to risk assessment
- Risk Assessment is the identification and analysis of those risks and forming a basis for determining how the risks should be managed
  - Bother internal and external
  - Typically includes:
    - Estimating the significance of risk
    - Assessing the likelihood of occurrence
    - Consideration of how the risk should be managed

Risk Assessment (Continued)

- Responses to Risk Assessment

  - Acceptance

  - Avoidance

  - Reduction

  - Sharing

Control Activities

- Policies and procedures that help ensure management directives are carried out
  - For the most part, you should already have these in place

- Help ensure that necessary actions are taken to address risks to achieve the Township objectives

Internal Controls (continued)

- Segregation of Duties
  - Integral part of Internal Controls
  - 4 General Categories
    - Authorization
    - Custody
    - Recordkeeping
    - Reconciliation

- How?!?!?!
  - Get Creative!

  - Integrate review process by your Board

  - Solicit the help of neighboring Trustees (or other local governmental officials)

Objectives

- The purpose of the internal control system is the achievement of objectives

- Objectives must be defined
  - Accurate Financial Reporting
  - Compliance with laws and regulations
  - Follow Township Assistance Standards
  - ??? [fill in the blank with your own objectives]

Categories of Objectives

- <u>Operations</u> – analyze operational and performance goals along with the effectiveness and efficiencies of operation, including the safeguarding of assets

- <u>Reporting</u> – considers both financial and non-financial information, internal and external to the unit, with an expectation of reliability, accountability and transparency

- <u>Compliance</u> – assure adherence to laws and regulations

Information and Communication

- Relevant and quality information from both internal and external sources is necessary to support the functioning of the other components of internal control

- Communication is a continual process of providing, sharing, and obtaining necessary information

- 2 way communication is important
  - Top to Bottom
    - Management communication control activities and demonstrates a positive control environment
  - Bottom to Top
    - Employees have the ability to communicate with management their assessment of control activities

Monitoring

- Ongoing Evaluation

- Questions?