

INTERNAL CONTROL / RISK ASSESSMENT



County Treasurers Conference
August 2019

Definition



- Internal control is the process by which management structures an organization to provide assurance that an entity operates effectively and efficiently, has reliable financial reporting system and complies with applicable laws and regulations.

Purpose

- To combat fraud and mistakes by:
 - Preventing Opportunity
 - Detecting Fraud, Errors, and Omissions



Objectives:

- 1) Operations
- 2) Reporting
- 3) Compliance

Components:

- 1) Control Environment
- 2) Risk Assessment
- 3) Control Activities
- 4) Information and Communication
- 5) Monitoring Activities



Control Environment

"Tone at the Top"

- Demonstrates commitment to integrity and ethical values
- Exercises oversight responsibility
- Establishes structure, authority, and responsibility
- Demonstrates commitment to competence
- Enforces accountability



Risk Assessment

“Where’s the risk”



- Specifies relevant objectives with sufficient clarity
- Identifies achievement of objective risks and analyzes risks to determine manageability
- Assesses the potential for fraud within risks
- Identifies and analyzes significant change that could impact

Control Activities

“Policies and Procedures”

- Develop control activities to mitigate risks to the achievement of objectives to acceptable levels
- Develop general control activities of technology to support the achievement of objectives
- Deploy internal control activities through policies that establish what is expected and procedures that put policies into place.



Information and Communication

- Obtains or generates and uses relevant, quality information to support the internal control function
- Internally communicates information, including objectives and responsibilities to support the internal control function
- Communicates with external parties regarding matters affecting the internal control function



Monitoring Activities

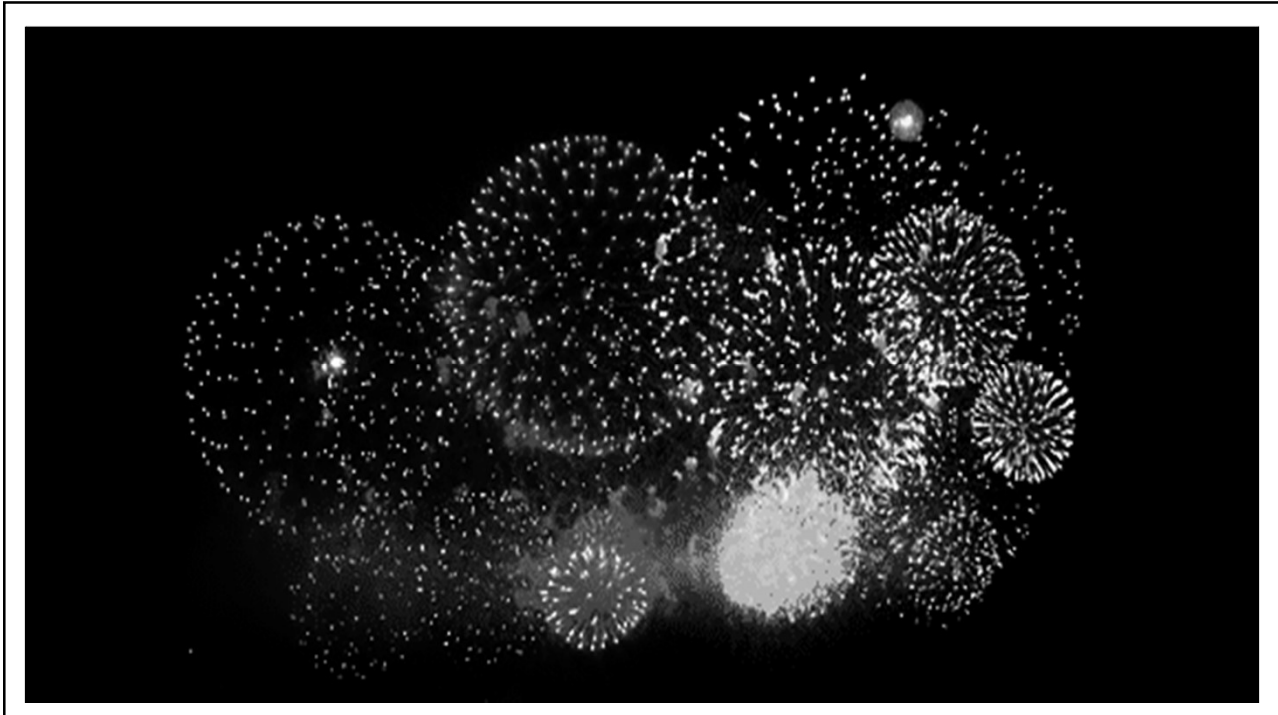
- Develop and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning
- Evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including management and the governing boards, as appropriate.



Additional Guidance

- Uniform Internal Control Standards for Indiana Political Subdivisions – Internal Control Manual

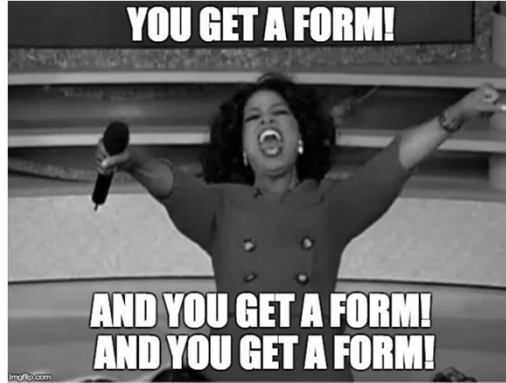
<https://www.in.gov/sboa/files/UniformInternalControlStandards.pdf>



Understanding Internal Controls and Risk Assessment

Designing Auditing Procedures through preliminary work:

- Form 7
- Form 9
- Form 45






FORM 45

➤ Cash and Investments

Account Balance(s): <u>Cash and Investments</u>	Audit Area: <u>Cash and Investments</u>
Document the reconciliation routine for material account balances.	
Reconciliation Routine	
Reconciling and Reporting:	
Based on the information obtained, does the unit have proper segregation of duties in this area?	
	<input type="checkbox"/>

FORM 45 Continued...

➤ Receipts

Transaction Class: <u>Receipts</u>	Audit Area: <u>Receipts</u>
Document the flow of information for significant transaction classes.	
Flow of Information	
Initiating Authorizing:	
Recording and Processing:	
Reconciling and Reporting:	
Based on the information obtained, does the unit have proper segregation of duties in this area?	
	<input type="checkbox"/>

Internal Controls Additional Information

- Internal Controls are designed and implemented by management
- Internal Controls should always be evolving and never stagnant
- Segregation of Duties
- Document, Document, Document



Questions?



Types of Audit Findings

- **Section II – Financial Statement Findings**
- **Section III – Major Program Findings**
- **Audit Result & Comments**
- **Management Letter**
- **Discussion Only Comments**



4 Common Repeat Findings



#1

Segregation of Duties

There were several deficiencies in the internal control system of the County Treasurer related to financial transactions and reporting. There was a lack of segregation of duties, as the County Treasurer had not separated incompatible activities related to cash and investments, receipts, and financial reporting.

Cash and Investments

The County Treasurer had not designed or implemented controls, including segregation of duties, to ensure the accuracy of the cash and investment balances. During the audit period, no reconciliations of the bank statement balances to the County Treasurer's Daily Balance of Cash and Depositories (Cash Book) balances were prepared.

Receipts

The County Treasurer had not designed or implemented controls, including segregation of duties, related to receipts. One employee was responsible for preparing the daily deposits, daily Cash Book postings, and reconciling the Cash Book to the County Treasurer's funds ledger. The process was completed without a documented oversight, review, or approval process to ensure the accuracy of the receipts.

Financial Reporting

The County Treasurer prepared and submitted the Supplemental CAR-1 report, which was the source of the County Treasurer's Cashbook fund on the financial statement, without a documented oversight, review, or approval process to ensure the accuracy of the report prior to submission.

Criteria for Finding

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . . There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

#2

After Settlement Collections

Due to the lack of internal controls, the following error occurred on the financial statements presented for audit.

After Settlement Collections fund receipts and disbursements were overstated by \$83,497,621.

OR

Due to the lack of internal controls, the following error occurred on the financial statements presented for audit.

After Settlement Collections fund beginning balance of \$1,238,659, receipts of \$3,558,742, disbursements of \$1,238,659, and ending balance of \$3,558,742 were omitted from the financial statements.

Criteria for Finding

Per County Bulletin – January 2014 (Volume #391 Page 6)

The county treasurer will reflect on the supplemental annual report as the beginning balance the previous year's ending balance. The disbursements column will be the same as the beginning balance. This has the effect of reversing out the prior year activity. The amount for receipts and ending balance is arrived at by taking the ending balance on the treasurer's daily cash sheet for the current December 31st balance of taxes to be settled + total other sources. The county auditor will reflect these amounts as the beginning balance, receipt, disbursement, and ending balance on the annual report under the after settlement collections fund. This is the only fund that provides the timing difference of financial activity that has not yet been recorded in the auditor's general ledger system.



Reconciling Auditor to Treasurer

There were several deficiencies in the internal control system of the County Treasurer related to financial transactions.

The Treasurer did not properly reconcile the Treasurer's Cash Book to the Auditor's Fund Ledger at the end of each month. At December 31, 2019, there was a difference of \$1,849,230 between the Treasurer's Cash Book year-end total and Auditor's Funds Ledger.

Criteria for Finding

Condition of Records

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 1)



Bank Reconciliations

There were deficiencies in the internal control system of the County Treasurer related to financial transactions of cash and investments. The County Treasurer had not implemented adequate segregation of duties and did not have controls in place to ensure the accuracy of the bank reconcilements.

The bank reconcilements as presented for audit were not in agreement with the combined record balances at December 31, 2019 being understated by \$42,852.

In addition outstanding check lists were not maintained to support the County's reconciliation, which resulted in an unreconciled variance of \$96,783. Supporting documentation for deposits in transit were also not maintained.

Criteria for Finding

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

