Indiana State Board of Accounts

Internal Controls

Cities & Towns

July 2019

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Internal Controls

✓ Components of Internal Control
✓ Creating an Effective Internal Control System
✓ Compensating Controls for all Sized Units
✓ What Internal Controls Do & Don’t Do
✓ Case studies

Creating Internal Controls

What are 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
• Uniform Internal Control Standards for Indiana Political Subdivisions
Creating Internal Controls - Defined

**SBOA definition:**

- Internal control is a process executed by officials and employees that is designed to provide reasonable assurance that the objectives of the political subdivision will be achieved;
- It is a basic element fundamental to the organization, rather than a list of added on tasks;
- It is an adaptable process that is a means to an end, not an end in itself;

**SBOA definition (continued):**

- It is focused on the achievement of objectives; and
- It is dependent on officials and employees for effective implementation.

*Uniform Internal Control Standards for Indiana Public Subdivisions*, p. 3
Internal Controls Standards

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

Internal Controls Objectives

Operations

- Operational & performance goals; best use of resources

Reporting

- Financial Statements, 100-R, etc.

Compliance

- Adherence to laws & regulations
Internal Controls

**Internal Control Components:**

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

Creating Internal Controls – Getting Started

Don’t reinvent the wheel
- Identify existing controls

Document, document, document
- Write down who does what
- Make lists
Establish Control Environment
- “Tone at the top”
- Missions, goals, and objectives
- Structure, organization, reporting chains

Review & Analyze Current Controls
- Look for weak areas
- Assess risk & take appropriate actions

Evaluate Resources
- Staffing levels, other assets

Assign Duties/Tasks/Activities
- Control activities

Communicate
- Handbooks, training sessions, etc.
Monitoring

- Implement controls to ensure everything you’ve established is being completed
- Obtaining goals & objectives?
  - If not – modify existing controls

Segregation of Duties – Compensating Controls

Splitting duties between individuals

- Prevent controls – segregated duties can prevent errors & irregularities
- No single person authorizing, recording, custody of transactions
- More difficult with fewer employees
  - Compensating controls may be necessary
Segregation of Duties – Compensating Controls

Compensating for lack of segregation of duties

- One employee
- Control should prevent or detect errors or misstatements
- One person performs – another reviews/approves
  - Bank Reconciliation
  - AFR
  - Revenue reports

Internal Controls – What Do They Do / Don’t Do

What Do They Do:

- Preventative
  - Designed to prevent errors/irregularities
- Detective
  - Designed to detect undesirable occurrences
- Promote effective operations
- Safeguard resources
  - Loss due to waste, misuse, fraud, etc.
- Develop reliable data for accurately reporting
Internal Controls – What Do They Do / Don’t Do

What Don’t They Do:

- Catch everything
  - Reduces risk / doesn’t 100% eliminate it
- Result from strong policies & procedures
- They don’t always work
  - If not effective, re-assess and make changes

Sample Internal Control Policies

New Castle, Indiana:
- [www.cityofnewcastle.net/egov/documents/1465396308_11682.pdf](http://www.cityofnewcastle.net/egov/documents/1465396308_11682.pdf)

Camden, Indiana:

LaPorte, Indiana
Sample Internal Control Policies

**Lakeland, Tennessee**
- Suburb of Memphis / population 12,618 ('17)
- www.lakelandtn.gov/DocumentCenter/View/5531

**Franklin, Tennessee**
- Suburb of Nashville / population ~ 80,000
- www.franklintn.gov/home/showdocument?id=28021

Internal Controls – Useful Links

- [www.mtas.tennessee.edu/download/file/fid/48575](http://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

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

- [www.auditnet.org/audit-library/auditnet-internal-controls-primer](http://www.auditnet.org/audit-library/auditnet-internal-controls-primer)


- [bizfluent.com/how-5120417-design-internal-control-system.html](http://bizfluent.com/how-5120417-design-internal-control-system.html)
Internal Controls – Useful Links

www.copedia.com/internal-controls.html
- Site has templates of policies and various materials to help – it does cost to download. Even if don’t purchase templates, the information you can view for free is helpful

Copedia

Internal Control Templates

Internal Control Policy and Procedure Templates
Overview
This internal control policy and procedure template includes an 8-page internal control policy, internal control Weaver Flowchart, Audit Committee representation information, and our standard work with over 1,800 actions. For more details on this template, click here. Copedia’s Internal Control in helps you to develop an internal control system that meets the needs of your organization. The internal control policy is divided into six sections: Overview, Objectives, Scope and Definitions, Risk Assessment, Control Activities, and Monitoring.

Small Business and Compliance Editions
The Copedia Internal Controls are available in Small Business and Compliance Editions.

Internal Control Evaluation Tools

Case Studies

Do internal controls really matter?
Case Study - Payroll

**Review Payroll Disbursements**
- 2nd person involved to review
- Compared disbursements to salary ordinance/schedule

**Communication of Inconsistencies**
- Reported to management

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Case Study – Bank Reconciliation

**Monthly Bank Reconciliation**
- Ind. Code 5-13-6-1

**Unidentified Transactions**

**Communication**
- Notified bank – loss timely reimbursed
Case Study – Receipts

**Historical Comparison**
- Reviewed receipts over a certain period

**Unexplained Variances**
- Significant decline noticed

**Communication**
- Notified SBOA and law enforcement

Case Study – Credit Cards

**Review of Supporting Documentation**
- Support for each disbursement on statement

**Unusual Activity**
- No support / personal purchases identified

**Communication**
- Notified fiscal officer
• **All erroneous or irregular material**
  - ✓ Variances
  - ✓ Losses
  - ✓ Shortages, or
  - ✓ Thefts

• **Actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds**

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**www.in.gov/sboa - Responsibilities under IC 5-11-1-27**

Pursuant to IC 5-11-1-27, all political subdivisions are required to report to us all erroneous or irregular material variances, losses, shortages, or thefts of local funds or property. For the purposes of this IC section, material is defined by the State Examiner in State Examiner Directive 2015-6. Please use the following form to report this information to us. All fields are required.

- Name: *
- First Name
- Last Name
- Email: *
Common Audit Findings

- Did not separate incompatible activities related to receipts, disbursements, and payroll.
- Did not have a review or approval process over bank reconciliation or over financial close & reporting.
- There was no evidence of an oversight, review, or approval process.

Take Action

- Review Internal Control Manual
- Continue to Establish Procedures
- Address all Five Internal Control Components
- Update Procedures as Needed
Questions

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