INTERNAL CONTROLS
2021 Annual County Treasurers Conference

Indiana State Board of Accounts

Internal Controls Review
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

- Lack or end-around of internal controls
- Senior management not watching

- Personal financial pressure
- Addiction

- "I haven't received a raise"
- "It's only a loan; I'll pay it back."
Components

1. Control Environment
   - “Tone at the Top”
2. Risk Assessment
   - Where is the risk?
3. Control Activities
   - Policies and Procedures
4. Information and communication
   - Reliable and Relevant; Internal & External
5. Monitoring Activities
   - Is it working properly? If not communicate timely.

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
Internal Control Scenarios

Scenario #1

- The Treasurer’s office has 2 cash drawers up front to make change when taking in payments. There are 4 employees that can help customers, taking money and issuing receipts. At the end of the day Monica is reconciling the drawers to the receipts and the cash is $500 short.
Scenario #2

- Rachel is working on the end of the month reconciling. She prints out the report in her software that compares the Auditor's ledger to the Treasurer's and then verifies the Treasurer's ledger amounts to the ledger line in the cashbook. Rachel then pulls the bank statements and reconciles the cashbook. While reconciling she finds several variances in different bank accounts, she notes the differences and does no further research. When finished she files it all away for audit.

Scenario #3

- Ross has been with the county for 20 years. He is responsible for the Cashbook and reconciling to the bank. Ross is also responsible to close the cash drawers and the end of the day reconciling them to the receipts and preparing the deposit slip. On his way home from work Ross is also responsible for depositing to days revenue at the bank. Ross always reconciles to the penny and his records are impeccable.
Scenario #4

- A new employee Chandler is responsible for completing the supplemental annual financial report to give to the Auditor for inclusion in the County’s Financial Statements. Chandler includes all transactions throughout the year including settlement, with no oversight, making the financial statements materially incorrect.

Scenario #5

- Phoebe the County Auditor has been put on the bank accounts by Joey the County Treasurer. Phoebe can now make any electronic fund transfers necessary to conduct county business.
Internal Control Considerations & Resources

Things to Consider

- One person responsible for any process and no one else knowing how to perform
- Remote Working
- Taking Records Home
  - Confidential Records
  - Policy
Fraud Attempts Increasing

- Be suspicious of emails from those you do not know and Read thoroughly before clicking on anything
- Fraudulent Checks
- Giving any confidential information over the phone

IC 5-11-1-27

- Pursuant to IC 5-11-1-27(j), all political subdivisions are required to report to us all erroneous or irregular material variances, losses, shortages, or thefts of local funds or property.
- https://www.in.gov/sboa/political-subdivisions/counties/
Resources

- Uniform Internal Control Standards for Indiana Political Subdivisions
  
  https://www.in.gov/sboa/files/UniformInternalControlStandards.pdf

Resources

- Best Practices Check Lists:
  - Bank Account Reconciliations
  - Receipting Activities
  - Disbursing Activities
  - Annual Financial Reports

https://www.in.gov/sboa/political-subdivisions/counties/
Contact Us

Directors of Audit Services for Counties
Lori Rogers
Ricci Hofherr

Email
Counties@sboa.in.gov

Phone
(317)232-2512