

Internal Control Scenarios

Scenario #1

Amy Farrah Fowler was just elected as Auditor of Big Bang County and has started her first day in the office. Amy is getting introduced to all the employees and figuring out who does what. Penny is the payroll clerk, Sheldon is the settlement clerk, and Leonard is responsible for claims. Everyone has been very welcoming and friendly.

The first few months pass really quickly and Amy is really getting an understanding of how the office flows and what needs to be done. As Amy get more and more familiar with the computer system she quickly realizes that it would be more efficient if all the claims and supporting documentation were scanned into the system for easy accessibility. The claims are now put together by Leonard and submitted to Amy for review and her signature before being placed on the docket for the Commissioners signature of approval.

She researches products that would work with her existing software and finds a suitable match and presents it to the commissioners who approve to enter into a contract with the software vendor. The vendor comes in and sets up the new system and within two months they are soaring right along with all indications that everything is working properly.

Two years later it is time for their annual audit that would cover the time period of the purchase of the new software. The auditors are in asking questions about the internal control procedures on disbursements. Amy informs them that they have implemented a new scanning procedure and how the Commissioners approve the docket. The auditors pull a sample of the claims and realize that when the software was implemented Amy stopped signing the claims because them became digital. Amy received a finding on compliance and internal control.

Where is the internal control issue?

What could have been done differently?

What internal controls could have been put into place?

Scenario #2

George Costanza is the Highway Superintendent for Kramer County. It is snow season and the weather has been consistently horrible. The county has received 40 inches of snow in the last week alone. George has tasked his three main highway workers, Jerry, Elaine, and Newman to work 10 hours of overtime each for the week to help plow the roads.

The next week Jerry, Elaine, and Newman are getting their time cards together and submitting them to the payroll clerk, Jay Peterman. Jay enters the time cards into the system and notices that the overtime appropriation line item has been overspent. Jay discusses this with the Auditor who then contacts George to let him know that he has already spent his overtime budget for the year and it's November. George says there is no way it can be overspent he hasn't approved any overtime until last week when the big snow hit.

The Auditor confused about the situation reviewed the time cards submitted by the highway department and found that Newman has been charging overtime throughout the year. The time cards were shown to George to explain how the overtime appropriation had been spent. George calls Newman in and asks for an explanation. Newman insists that he worked all that overtime even though George had never approved any of it. Upon further inspection the Auditor realized the George was not reviewing and signing the time cards certifying the time his employees were charging.

Obviously George should have been reviewing and certifying the time cards but what else should he have been doing that would have caught this earlier?

What internal controls could be designed to detect this issue in the Auditor's office?

Scenario #3

Michael Scott the Auditor of Dunder-Mifflin County was in "the office" one afternoon when his deputy auditor, Pam Beesley was working on the annual financial report that needs to be uploaded to Gateway in two weeks. Pam has been working with the Clerk, Jim Halpert, the Sheriff, Dwight Schrute, and the Treasurer, Angela Martin to obtain their supplemental AFR for inclusion in the financial statement.

Three days before the annual financial report is due Pam finally has everything entered into Gateway. Michael comes into Pam's office to check on the status of the AFR and Pam informs him that it is ready. Michael is elated that it is done and will be submitted on time, he tells Pam to submit it by the end of the day today. Pam uploads it on gateway and move on to her other duties.

A few months later a State Board of Accounts field examiner shows up to perform the annual audit. The financial statements are being reviewed and it is determined that the Treasurer did not submit the correct amounts and the financial statements were overstated in receipts and disbursements by \$43,567,972 because settlement was included. The Auditor and the Treasurer were each given a finding on internal controls.

Why were both offices given a finding?

What internal controls could be implemented?

Scenario #4

Leslie Knope, Auditor for Playground County, signs the claims twice a month before they are presented to the Commissioners for approval. Leslie's accounts payable clerk, April, gathers all the information and prints out a claim document for Leslie to sign every two weeks. Once Leslie has signed the claim document it is presented at the next Commissioners meeting for approval. Once the Commissioners approve payment of the claims the Auditor office initiates the payment process. This process has been done the same way for 10 years with no problems.

It is that time of year when the State Board of Accounts send in their field examiners to perform their annual audit of the financial statements. While performing the audit Susie, an experienced field examiner performs a test of disbursements by pulling a sample of claims paid throughout the audit period. One of the claims chosen for audit is for the county credit card. The county has only had the credit card for a few years now and has adopted a credit card policy as they were advised per the prior audit. As Susie reviews the claim she realizes that itemized receipts are not always submitted by the user. Susie brings the issue to Leslie asking for the supporting documentation. Leslie takes a look at the charges and determines that the needed itemized receipts were all from the Sheriff's office and makes a call to their head bookkeeper, Ron Swanson.

Ron had maintained all the itemized receipts but had never turned them in. He brings them over to Susie, the field examiner, for audit. Susie reviews the itemized receipts and determined that the Sheriff's office have been purchasing personal items with the credit card and having the county pay for it. The personal items included groceries, gas (in which a travel claim was submitted as well), and alcohol purchases. Susie shows the Leslie the itemized claims and the finding that will be included in the report. State Board of Accounts Special Investigations have also been notified.

Was there an internal control issue?

What should have been happening?

Should the Auditor have had a finding?

Scenario #5

During the State Board of Accounts financial audit it was determined that the Point County Treasurer, Donna Pinciotti, was not reconciling to the funds ledger. While she was maintaining receipts, disbursements and balances within her office she was never reconciling with the Auditor, Michael Kelso. Michael, new in office, assumed the treasurer had access to his fund ledger and never gave it a second thought.

The Council members including Steven Hyde, Jackie Burkhart, Eric Foreman, and Fez had all approved significant transfers throughout the year from numerous funds that were not reflected in the treasurer's records. Donna submitted a supplemental annual financial report to Michael that included the Settlement transfer from June and December. The field examiner included findings on both the Treasurer and Auditor.

What are the issues here?

Who is responsible?

What controls are lacking and what controls could be used?