INTERNAL CONTROLS

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Internal Controls

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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
Resources for Reference

- SBOA Internal Controls Standards webpage
  - [www.in.gov/sboa/5071.htm](http://www.in.gov/sboa/5071.htm) and/or [www.in.gov/sboa/4445.htm](http://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](https://www.youtube.com/watch?v=L0N80PBbPHQ)

- Standards for Internal Control in the Federal Government (the Green Book)
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
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
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
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

- **Operations** – analyze operational and performance goals along with the effectiveness and efficiencies of operation, including the safeguarding of assets.

- **Reporting** – considers both financial and non-financial information, internal and external to the unit, with an expectation of reliability, accountability and transparency.

- **Compliance** – 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.

- Two-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?