



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*

Internal Controls (continued)

- Resources for Reference

- *SBOA Internal Controls Standards webpage*

- www.in.gov/sboa/5071.htm and/or 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=LON80PBbPHQ>

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

- www.gao.gov/assets/670/665712.pdf

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

Internal Controls (continued)

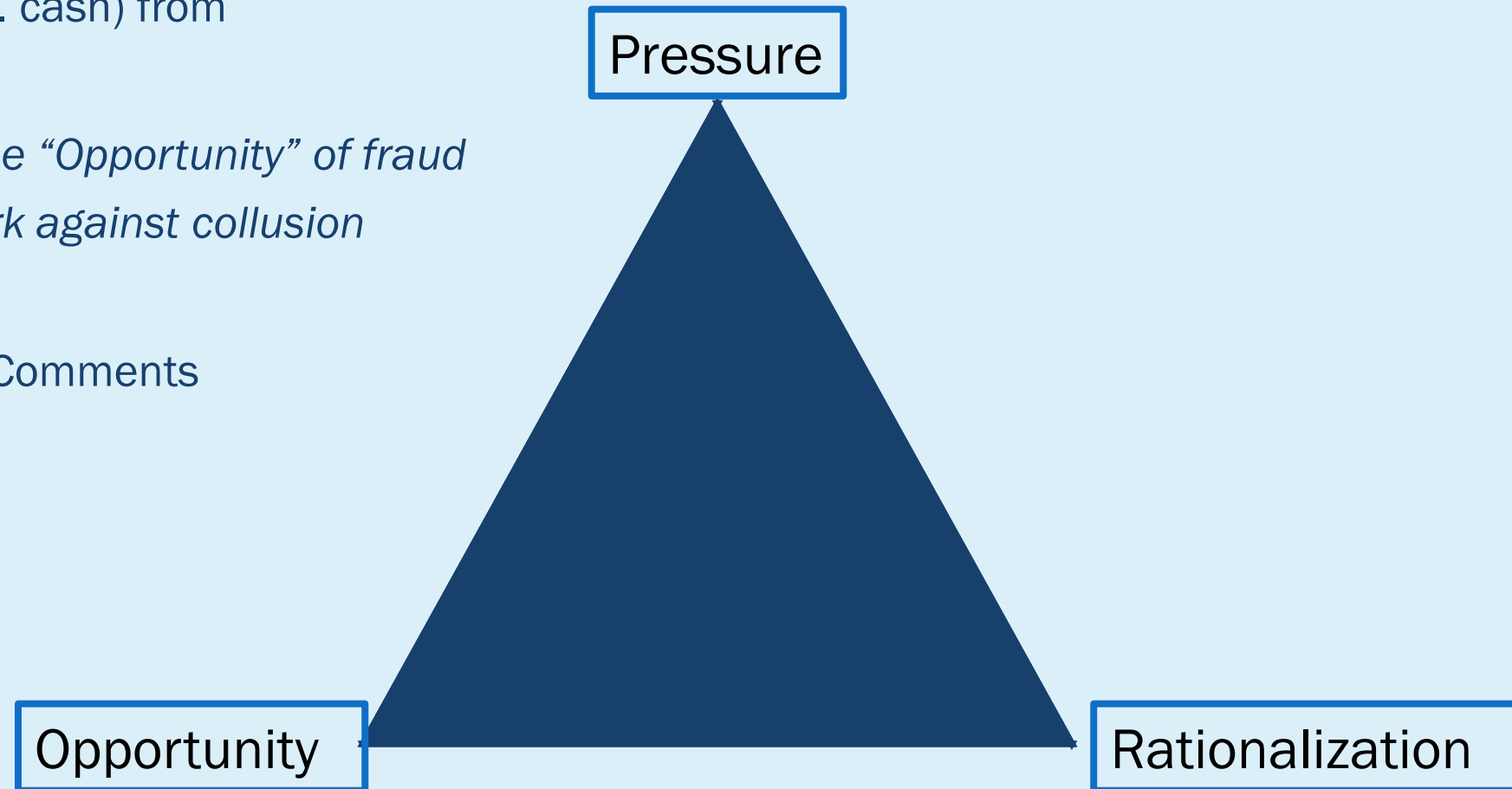
- What happens if you are in noncompliance with the statute?
 - *After June 30, 2016, SBOA will*
 - Issue a comment in the audit report
 - If during the second review period, you still have not complied, you will have 60 days to comply and let us know
 - If you still don't, we will notify the DLGF and they will not approve a budget or additional appropriations until you comply

Internal Controls (continued)

- 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 data***
 - *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



Internal Controls (continued)

- 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
- 2 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?