

Internal Controls

Internal Controls



Indiana State Board of Accounts

AIM Webinar

September 27, 2022



Contact Info



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Internal Controls

- ✓ **Basics of Internal Control**
- ✓ **Internal Control Objectives**
- ✓ **5 Components of Internal Control**
- ✓ **How To Get Started**
- ✓ **Best Practices**

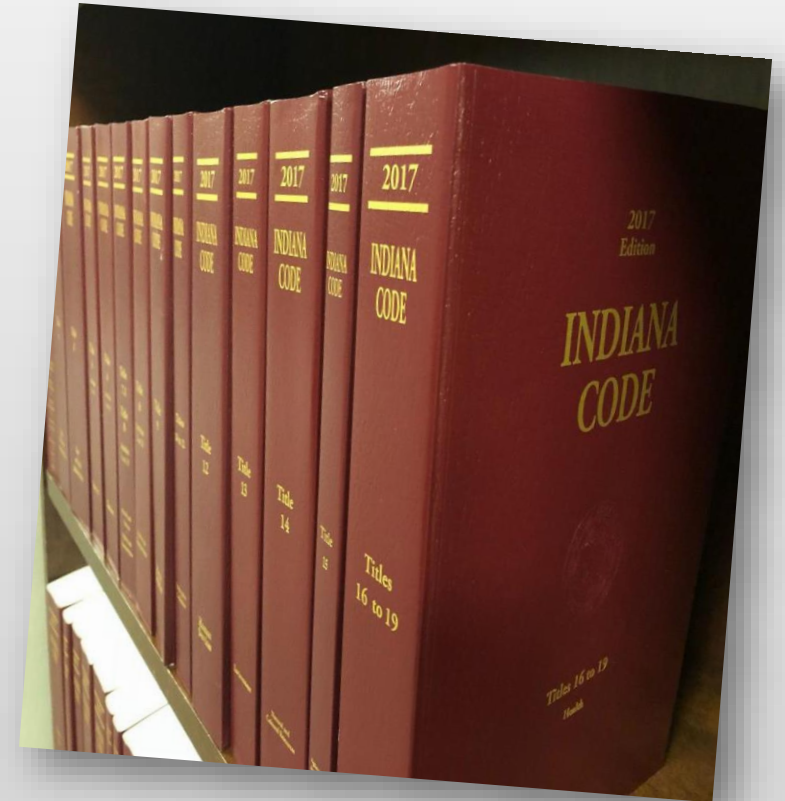
What are Internal Controls

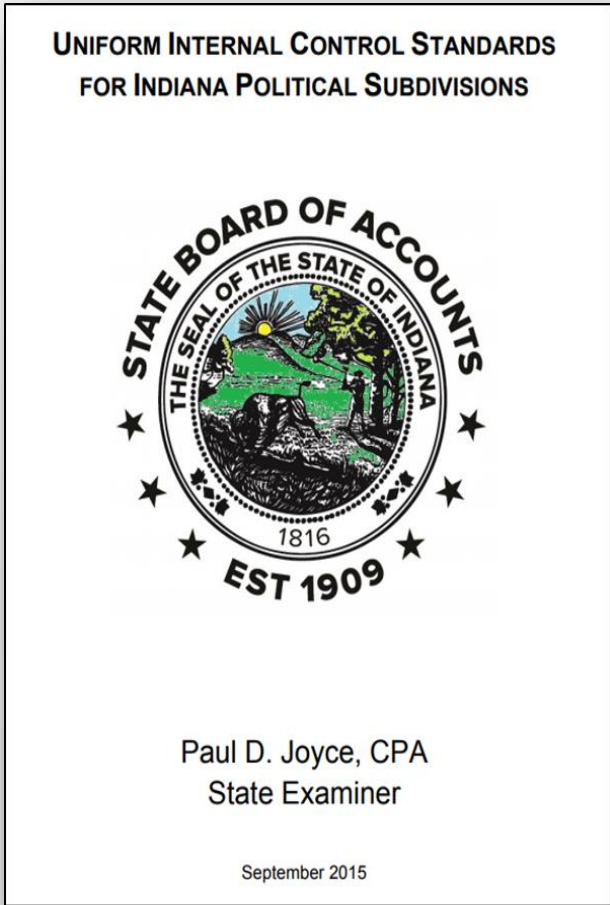
- Internal controls are processes executed by officials and employees that are designed to provide reasonable assurance that the objectives of the political subdivision will be achieved.
- Internal control is a basic element fundamental to the organization, rather than a list of added on tasks.
- Adaptable process that is a means to an end, not an end in itself.
- Dependent on officials & employees for effective implementation
- Achievement of objectives



Statutorily, 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





Political Subdivisions

General Overview

Internal Control Standards



Charter Schools

Cities



www.in.gov/sboa/files/UniformInternalControlStandards.pdf



UNIFORM INTERNAL CONTROL STANDARDS FOR INDIANA POLITICAL SUBDIVISIONS



Paul D. Joyce, CPA
State Examiner

September 2015

Internal Control Standards

Standards

[Indiana Code 5-11-1-27\(e\)](#) provides that through the compliance guidelines authorized under [IC 5-11-1-24](#) the state board of accounts shall define the acceptable minimum level of internal control standards for internal control systems of political subdivisions, including the following: (1) Control Environment. (2) Risk Assessment. (3) Control Activities. (4) Information and Communication. (5) Monitoring.

In response, the SBOA developed the [Uniform Internal Control Standards for Indiana Political Subdivisions](#) manual, which contains the acceptable minimum level of internal control standards.

[Generally Accepted Government Auditing Standards](#) (the "Yellow Book") prohibits the SBOA from prescribing the actual internal control procedures to be used by a political subdivision. However, the manual provides examples and case studies to demonstrate implementation strategies.

Internal Control Policy and Required Certifications

After June 30, 2016 [IC 5-11-1-27\(g\)](#) provides that the legislative body of each political subdivision must adopt the minimum internal control standards as defined by SBOA. Additionally, the legislative body must ensure that personnel receive training concerning the internal control standards and procedures adopted by the political subdivision.

At the time of submission of the Annual Financial Report (AFR) through Gateway, the fiscal officer must certify that the minimum internal control standards have been adopted and that personnel who are not otherwise on leave status have received training regarding these standards and procedures. Instructions for filing will be found as part of the AFR submission.

Apart from the required certification to be filed by the fiscal officer in Gateway during the submission of the 2016 AFR due March 1, 2017 (or August 29, 2017 for Schools)], a certification for each elected official, appointee, and employee that meets the definition of personnel in [IC 5-11-1-27\(c\)](#), should be signed as evidence for their individual training. A certification form is provided below and can also be found under the Appendix found in the Uniform Internal Control Standards for Indiana Political Subdivisions manual. These certifications are to be maintained by the political subdivision on-site.



SECTION ONE

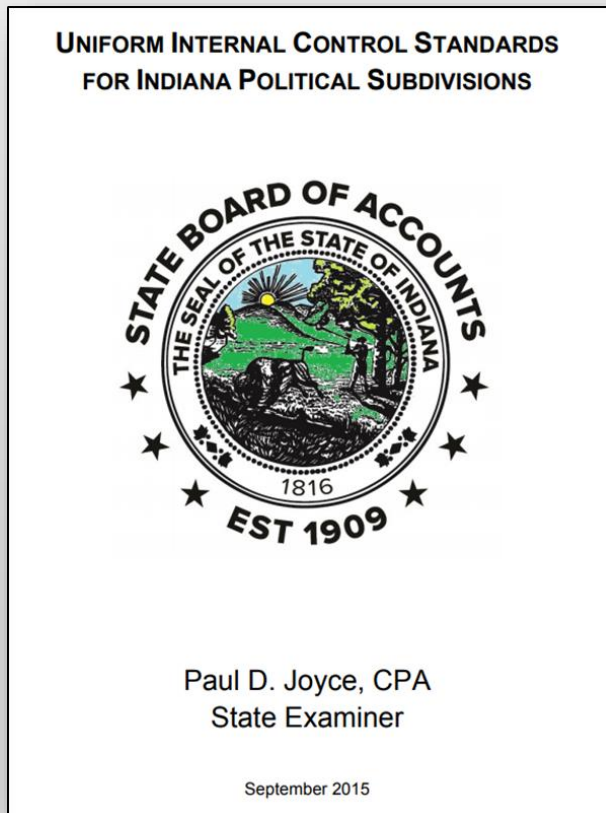
Minimum Level of Internal Control Standards

- Five Components
- Seventeen Principles

SECTION TWO

Approved Training Materials

- Video Presentation
- Examples
- Case Studies





Objectives

Operations

Analyze operational and performance goals along with the effectiveness and efficiencies of operation, including the safeguarding of assets

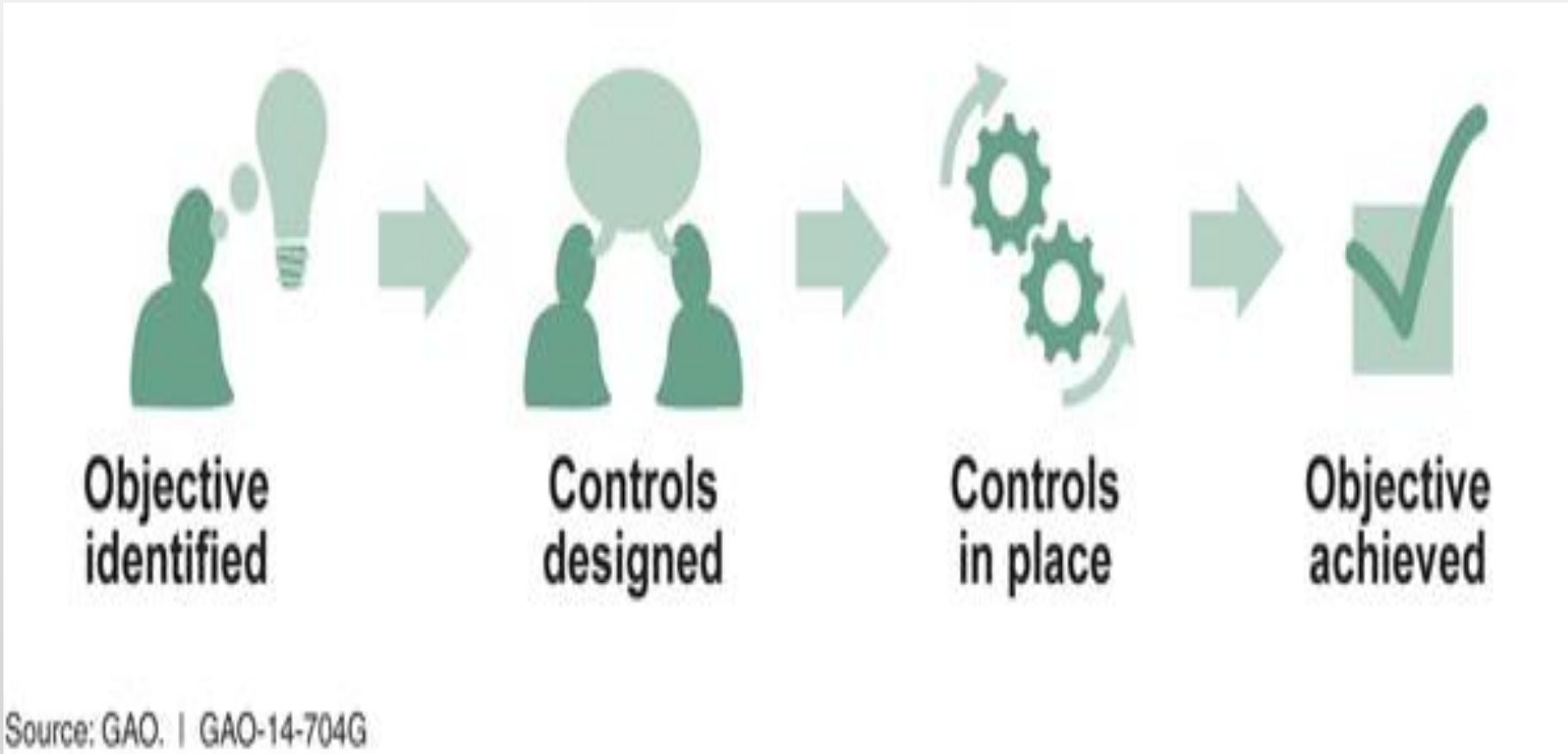
Reporting

Considers both financial and non-financial information, internal and external to the unit, with an expectation of reliability, accountability and transparency

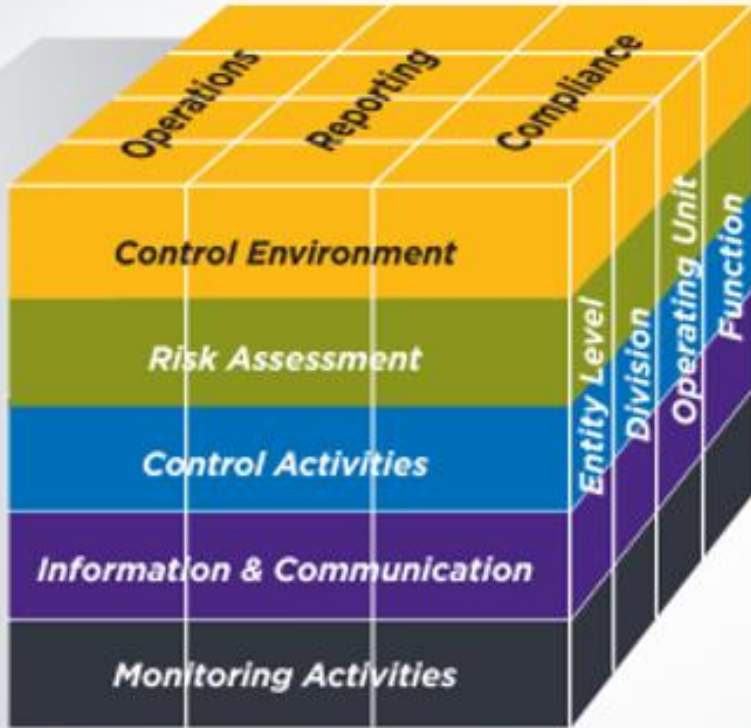
Compliance

Assure adherence to laws and regulations

Internal Controls



Internal Controls



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Internal Control Components:

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



Internal Controls

Sets the “tone at the top”, influencing the control consciousness of its people.

Foundation for all other components, providing discipline & structure.



Control Environment

Factors:


- Integrity & ethical values
- Commitment to competence
- Management philosophy & operating style
- Organizational structure
- Assignment of authority & responsibility
- Human resource policies and procedures



Identification & analysis of relevant risks to achievement of objectives, forming a basis for determining how the risks should be managed.



Objectives must be established prior to the identification of risks to their achievement & to take necessary actions to manage risks



Risk Assessment

Assessment of risk includes:

- Establishing the significance of a risk
- Assessing the likelihood or frequency of the risk occurring
- Consideration of how the risk should be managed



Internal Controls

Policies & procedures that help ensure mgmt. directives are carried out.

Ensure necessary actions are taken to address risks to achievement of objectives



Control Activities



Internal Controls

Occur throughout the city/town, at all levels & in all functions.

Includes:

- Segregation of duties
- Approvals
- Authorizations
- Verifications
- Reconciliations
- Reviews of performance



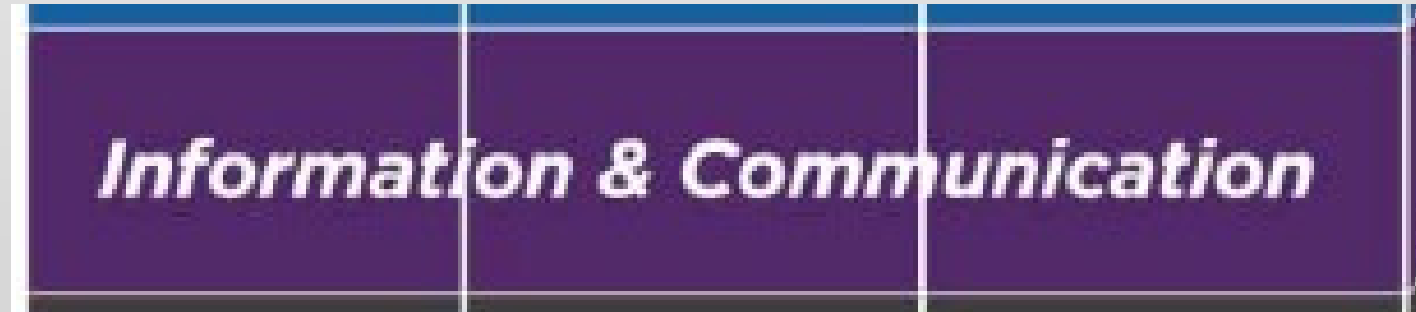
Control Activities



Emphasizes the importance of quality information

City/town internally communicates information

Communicates externally





Ongoing Evaluations – built into various levels of your unit to provide timely information

Separate Evaluations – conducted periodically



Internal Controls



Don't reinvent the wheel

- Identify existing controls and procedures



Document, document, document

- Write down who does what.
- Make lists



Getting Started –

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



Getting Started –

Evaluate Resources

- Staffing levels, other assets

Assign Duties/Tasks/Activities

- Control activities

Communicate

- Handbooks, training sessions, etc.



Getting Started –

Monitoring

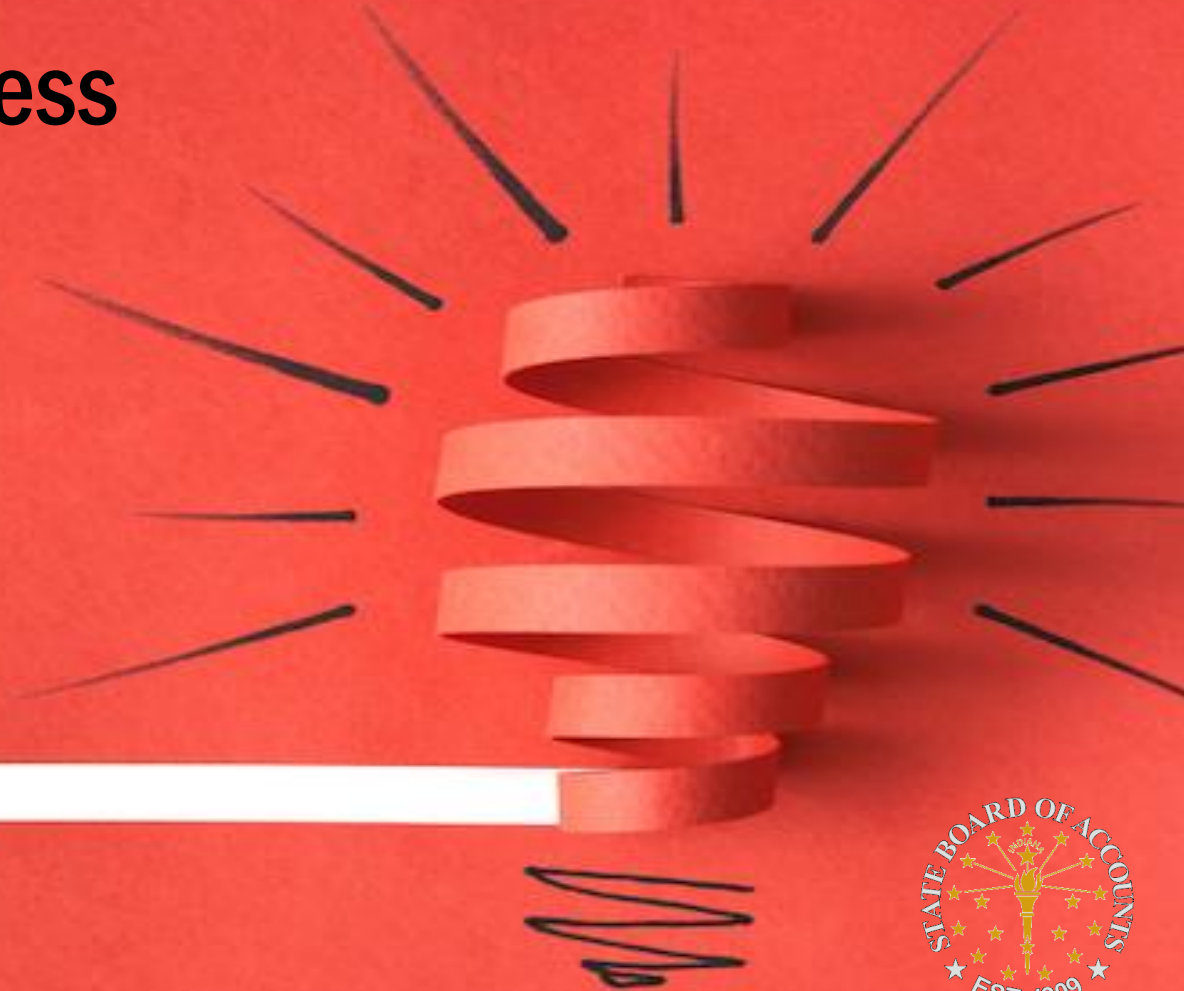
- Implement controls to ensure everything you've established is being completed and working like you wanted it to.
- Obtaining goals & objectives?
- If not – why? Modify existing controls as needed





Internal Controls = Ongoing Process

- ✓ Implement
- ✓ Evaluate
- ✓ Modify
- ✓ Address all 5 components



Internal Controls

Helpful Resources & Links





www.in.gov/sboa/political-subdivisions/internal-control-standards/



SBOA

About Us

Political Subdivisions

- General Overview
- **Internal Control Standards**
- Charter Schools
- Cities
- Counties
- Hospitals
- Housing Authorities
- Libraries
- Non-Governmental Entities Receiving Governmental Assistance
- Schools
- Special Districts

SBOA / POLITICAL SUBDIVISIONS / INTERNAL CONTROL STANDARDS

Internal Control Standards

Standards

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SBOA Best Practices: <https://www.in.gov/sboa/library/best-practices/>

Presentations and Training Materials

YouTube

Best Practices

Frequently Asked Questions

? Top FAQs



Annual Financial Report	+
Bank Account Reconcilements	+
Credit Card Purchases	+
Disbursing Activities	+
Overdrawn Cash and Investment Balances	+
Payroll Activities	+
Prepaid Meals - Schools	+
Receipting Activities	+
Schedule of Expenditures of Federal Awards (SEFA)	+

SBOA Best Practices:

Bank Account Reconcilements

A summarized version of this best practice can be found at [this link](#).

A system of internal control may be implemented in many different ways. Because political subdivisions vary in purpose, size and complexity, no single method of internal control is universally applicable. However, the five internal control components should be present and functioning in all political subdivisions.

Questions have been accumulated for all five internal control components. This document includes questions pertaining to various noncompliance issues regarding bank account reconcilements. These questions can be used to aid in designing a proper system of internal control over bank reconcilements that will allow incorrect bank reconcilements to be prevented or detected and corrected in a timely manner. It is not necessary to address all questions in this document. These are only suggestions and ultimately it is up to the unit on how they implement it. The internal control system as a whole has to be designed and implemented appropriately in order to allow errors made on the bank reconciliation to be prevented or detected and corrected in a timely manner.

Components of Internal Control:

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

Control Environment - Sets the tone of the unit and influences the effectiveness of internal controls within the unit. It comprises the integrity and ethical values of the unit and is set by the governing board and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control.

The questions in this section are divided by questions that pertain to the governing board, management and both the governing board and management.



BANK ACCOUNT RECONCILEMENTS

A system of internal control may be implemented in many different ways. Because political subdivisions vary in purpose, size and complexity, no single method of internal control is universally applicable. However, the five internal control components should be present and functioning in all political subdivisions.

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Control Environment

The questions in this section are divided by questions that pertain to the governing board and management.

Governing Board:	YES	NO
1) Does the governing board oversee the unit's internal control system over the preparation and review of the bank reconciliation?	<input type="checkbox"/>	<input type="checkbox"/>
2) Are there written policies documenting internal control procedures over the preparation and review of the bank reconciliation? If yes, do these written policies outline the authority and responsibility for the preparation and review of the bank reconciliation within the unit and require bank reconciliations to be performed monthly?	<input type="checkbox"/>	<input type="checkbox"/>
3) Does the governing board have a complete listing of all bank accounts?	<input type="checkbox"/>	<input type="checkbox"/>

Management:	YES	NO
1) What procedures did management put in place for the preparation and review of the bank reconciliation and review of cash and investment balances?	<input type="checkbox"/>	<input type="checkbox"/>
a. Does management assign responsibility, and delegate authority to achieve a correct bank reconciliation and ensure it is prepared monthly?	<input type="checkbox"/>	<input type="checkbox"/>
2) Have all bank accounts been reported to management?	<input type="checkbox"/>	<input type="checkbox"/>
3) Is management willing to adjust the financial statements for misstatements that approach a material amount?	<input type="checkbox"/>	<input type="checkbox"/>

Risk Assessment	YES	NO
1) Does management identify, analyze and respond to risks regarding the preparation and review of the bank reconciliation?	<input type="checkbox"/>	<input type="checkbox"/>
a. What areas have been identified regarding the preparation and review of the bank reconciliation that may be exposed to risk?	<input type="checkbox"/>	<input type="checkbox"/>
b. How has management analyzed and responded to identified risks? For example, management may accept the risk and take no action, choose to eliminate certain processes to avoid the risk and/or institute proper internal controls.	<input type="checkbox"/>	<input type="checkbox"/>
2) How does management prevent fraud and errors in the accounting records, which are used to compute cash and investment balances. For example, are important internal control procedures in place such as approvals, regular preparation or review of reconciliations, review of supporting schedules or reports, etc.?	<input type="checkbox"/>	<input type="checkbox"/>
3) What procedures are in place to ensure that the information reported on the bank reconciliation is correct and reflective of the accounting records and the bank reconciliation is performed monthly?	<input type="checkbox"/>	<input type="checkbox"/>

Control Activities	YES	NO
1) Is there a system of checks and balances (segregation of duties) to ensure a correct bank reconciliation?	<input type="checkbox"/>	<input type="checkbox"/>
a. Are responsibilities for reviewing the bank reconciliation segregated from those preparing the bank reconciliation?	<input type="checkbox"/>	<input type="checkbox"/>
b. Are responsibilities for preparing the bank reconciliation segregated from those involved in receipting and disbursing activities?	<input type="checkbox"/>	<input type="checkbox"/>
c. Are responsibilities for preparing a reconciliation between the receipts ledger and the credits to the bank account segregated from those involved in the receipting process?	<input type="checkbox"/>	<input type="checkbox"/>
d. Are responsibilities for preparing a reconciliation between the disbursements ledger and the debits to the bank account	<input type="checkbox"/>	<input type="checkbox"/>





Sample Internal Control Policies:

Indiana

- New Castle www.cityofnewcastle.net/egov/documents/1465396308_11682.pdf
- Camden www.townofcamden.org/wp-content/uploads/2014/09/Internal-Controls-Policy-and-Procedures.pdf

Outside Indiana

- Lakeland, Tennessee www.lakelandtn.gov/DocumentCenter/View/5531
- Franklin, Tennessee www.franklintn.gov/home/showdocument?id=28021



Useful Links

<https://www.vlct.org/resource/internal-financial-controls-checklist-municipalities>

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

<https://www.hudoig.gov/sites/default/files/Internal%20Controls%20Integrity%20Bulletin%20CPD.pdf>

<https://www.auditnet.org/audit-library/auditnet-internal-controls-primer>

<https://bizfluent.com/how-5120417-design-internal-control-system.html>



Useful Links

<https://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

Accounting & Management Internal Control HR Sales Projects Safety Compliance

Internal Control Policy and Procedure Templates

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Overview

The internal control policies and procedures templates include an 8 page internal control policy, internal control review procedures, Audit Committee responsibility descriptions, and our spreadsheets with over 1,000 internal controls covering both entity level controls and accounting controls. Use the Copedia Internal Controls to develop an internal control system complete with checklists, questionnaires and evaluation tools covering Assets, A/P, A/R, Cash, Checks, Financial Reporting, Job Costing, Marketing/Customers, Data Integrity, Payroll and HR, Project Management, Purchasing, Receiving and Warehousing, Safety, Sales and Estimating, Retail, the Control Environment, Control Activities, Risk Assessment, Information and Communications, and Control Monitoring.

Copedia Internal Control Templates

Our internal control templates help you in the efficient operation of your business by providing professionally developed checklists, procedures, assessments, and evaluation tools based on generally accepted compliance standards.

Small Business and Compliance Editions

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

Internal Control Evaluation Tools

File	Home	Insert	Page L	Formu	Data	Review	View	Develo	Help
1									
A	B	C	D	E	F	G			
			Internal Control Assessment Tool						
			Evaluation Summary						
Period:			8		Overall Risk Rating				
CEO:			0		Risk Appelle				
CFO:									
Approval:			Not Approved						
			Send						
Description	Cycle	Assigned	Completed	Material	Date	Detailed Assessment R			
	Once	Yes	Definitive	Reviewed by: Approved		Link ID or Principals			
Activities									



Internal
Controls

