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Travis Lowe, CPA  
Vice President

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### So, What's Your Job?

- ▶ Well, I receipt and record deposits, write checks, reconcile all the bank accounts, run payroll, handle purchasing, and...



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### The Problems We Face

- ▶ Not enough staff
- ▶ Time for training
- ▶ Cost of implementation
- ▶ Cost of failing to implement
- ▶ Mitigating opportunity for misappropriation



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### Internal Control

- ▶ Internal control is a process, effected by an entity's board of director's, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.



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### Internal Control

- ▶ What we do to make sure the right things happen, and the wrong things don't.
- ▶ The **BIG** questions:
  - ▶ What do you worry about going wrong?
  - ▶ What steps have been taken to see it doesn't?
  - ▶ How do you know things are under control?



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### Types of Controls

- ▶ Approvals and Authorizations
- ▶ Verifications
- ▶ Reconciliation
- ▶ Reviews of Performance
- ▶ Security of Assets
- ▶ Segregation of Duties
- ▶ Controls Over Information Systems



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### Who CARES???

- ▶ Compliance with laws and regulations
- ▶ Accomplishment of mission
- ▶ Relevant and reliable data
- ▶ Effective and efficient operations
- ▶ Safeguarding of assets



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### Who CARES???

<ul style="list-style-type: none"><li>▶ <b>Management's Side</b><ul style="list-style-type: none"><li>▶ Transactions are recorded</li><li>▶ Reporting accuracy</li><li>▶ Assets are secure</li><li>▶ Compliance</li></ul></li></ul>	<ul style="list-style-type: none"><li>▶ <b>Worker's Side</b><ul style="list-style-type: none"><li>▶ Protection &amp; evidence of no wrongdoing</li><li>▶ Reduce errors</li><li>▶ Simplify</li></ul></li></ul>
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Internal Controls    You    Peace of Mind



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### Where are Your Controls?

- ▶ Still have a policy for paying only on the original invoice?
- ▶ Developed effective controls for purchasing cards?
- ▶ Manual signatures for large checks but not for ACH's or wires of the same amount?
- ▶ Have outsourced financial functions?
- ▶ Responsibility of IT controls and cyber threat prevention?



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### Where Are Your Controls?

- Unreliable**: Control activities are not designed or in place. The environment is unpredictable.
- Informal**: Control activities are designed and in place, but they are not adequately documented.
- Standardized**: Control activities are designed, in place and adequately documented.
- Monitored**: Controls are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized**: Controls are integrated. There is real-time monitoring by management and continuous improvement.

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### We're "Paperless"!

Traditional	Automated
Locked filing cabinet	User ID and Password
Physical segregation of duties	Password hierarchies that segregate duties through screen access
Initials on paper invoices	Automated workflow approvals
Manual review, paper forms	Input controls, automatic population of certain fields, edit checks
Using reports to monitor and control budget	System controls that refuse to process transactions if budget authorization is inadequate

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### Monitoring

- ▶ What do you do to make sure everyone is doing what they should and that controls are working?
- ▶ All the best controls can be in place, but if they're never checked to see if they work, they probably are not.

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### Monitoring

► What about trust?

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### Monitoring

"It just happened." The Accidental Fraudster

Pressure Rationalization Opportunity and Involvement

"Because they can." The Predator

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### Segregation of Duties

► Cash Receipts - One Accounting Position

Task	Performed By
Prepare deposit slip	Mayor / Board Member
Prepare daily collection report	Mayor / Board Member
Make the deposit	Finance Officer
Compare activity listed on the deposit slip to the daily collection report	Finance Officer
Record activity on daily collection report in the general ledger	Finance Officer
Properly secure any undeposited funds	Finance Officer

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### Segregation of Duties

► Cash Receipts - Two Accounting Positions

Task	Performed By
Prepare deposit slip	Mayor / Board Member
Prepare daily collection report	Mayor / Board Member
Make deposit	Finance Officer
Compare activity listed on the deposit slip to the daily collection report	Accounting Technician
Record activity on daily collection report in the general ledger	Accounting Technician
Properly secure and undeposited funds	Finance Officer



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### Segregation of Duties

► Bank Accounts - One Accounting Position

Task	Performed By
Make sure that deposits are in authorized institutions	Finance Officer
Maintain signature cards	Finance Officer
Receive notification of any unusual items or transactions	Mayor / Board Member
Reconcile bank statements	Finance Officer



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### Segregation of Duties

► Bank Accounts - Two Accounting Positions

Task	Performed By
Make sure that deposits are in authorized institutions	Finance Officer
Maintain signature cards	Finance Officer
Receive notification of any unusual items or transactions	Mayor / Board Member
Reconcile bank statements	Accounting Technician



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### Segregation of Duties

► Revenue & Billings - One Accounting Position

Task	Performed By
Prepare bills and review for reasonableness	Finance Officer
Mail bills	Mayor / Board Member
Collect payments	Finance Officer
Prepare deposit slip	Mayor / Board Member
Make deposit	Finance Officer
Post payment to the general ledger	Mayor / Board Member
Reconcile subsidiary ledgers with the control account	Finance Officer
Periodically review delinquencies	Mayor / Board Member



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### Segregation of Duties

► Revenue & Billings - Two Accounting Positions

Task	Performed By
Prepare bills and review for reasonableness	Finance Officer
Mail bills	Mayor / Board Member
Collect payments	Accounting Technician
Prepare deposit slip	Finance Officer
Make deposit	Accounting Technician
Post payment to the general ledger	Finance Officer
Reconcile subsidiary ledgers with the control account	Accounting Technician
Periodically review delinquencies	Mayor / Board Member



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### Segregation of Duties

► Nonpayroll Disbursements - One Accounting Position

Task	Performed By
Prepare PO, if applicable	Finance Officer
Review and approve purchase order	Finance Officer
Compare copy of PO to receiving report or actual good received	Finance Officer
Match copy of the PO to the invoice	Finance Officer
Review documentation, prepare and sign check	Finance Officer
Second check signer reviews documentation and signs checks	Mayor / Board Member
Mail check	Mayor / Board Member



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### Segregation of Duties

► Nonpayroll Disbursements - Two Accounting Positions

Task	Performed By
Prepare PO, if applicable	Accounting Technician
Review and approve purchase order	Finance Officer
Compare copy of PO to receiving report or actual good received	Accounting Technician
Match copy of the PO to the invoice	Accounting Technician
Review documentation, prepare and sign check	Finance Officer
Second check signer reviews documentation and signs checks	Mayor / Board Member
Mail check	Finance Officer



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### Segregation of Duties

► Payroll Disbursements - One Accounting Position

Task	Performed By
Maintain personnel files and update as necessary	Finance Officer
Review and approve time sheets and leave records	Finance Officer
Prepare checks	Finance Officer
Review payroll for reasonableness and sign check	Finance Officer
Obtain second check signature	Mayor / Board Member
Distribute checks	Mayor / Board Member



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### Segregation of Duties

► Payroll Disbursements - Two Accounting Positions

Task	Performed By
Maintain personnel files and update as necessary	Finance Officer
Review and approve time sheets and leave records	Finance Officer
Prepare checks	Accounting Technician
Review payroll for reasonableness and sign check	Finance Officer
Obtain second check signature	Mayor / Board Member
Distribute checks	Mayor / Board Member



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### Best Practices

- ▶ Place value on your signature
  - Know what you are signing - you are responsible
  - Never sign blank forms
  - Never let others sign your name



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### Best Practices

- ▶ Develop written procedures
  - Serves as a resource for employees
  - Serves as a training tool for new employees
  - Creates consistency and efficiencies
  - Manages expectations



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### Best Practices

- ▶ Segregation of duties
  - No one should control any process start to finish
  - No one should approve their own expenditures
  - Two people involved: an initiator and an approver
  - Separate people should approve and record transaction
  - Compensating controls



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### Best Practices

- ▶ Protect your password
  - Don't share your password
  - Don't let anyone watch you enter your password
  - Use a strong password



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### Best Practices

- ▶ Financial and other reports
  - Review budget reports
  - Access reports
  - Purchase cards
  - Accounts Receivable / Payable
  - Payroll
  - Unusual transactions

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### What the Auditor is Looking For



<b>Monitoring</b>	• Assess internal control performance
<b>Control Activities</b>	• Tools that help prevent or reduce risk
<b>Risk Assessment</b>	• Identification and analysis of relevant risks to achievement of objectives
<b>Control Environment</b>	• Sets the tone

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**Some Takeaways**

- ▶ Everyone is responsible for internal control.
- ▶ Protect employees and resources.
- ▶ Not everything suspicious is fraud, but every fraud is suspicious.
- ▶ Never accept “that’s how we’ve always done it”.
- ▶ Encourage employees to challenge the status quo.
- ▶ It’s not just manuals and forms but people at every level.
- ▶ Don’t manage risk in silos.



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**Sometimes We Forget**

- ▶ Systems change
- ▶ Technology changes
- ▶ People leave
- ▶ People retire
- ▶ New people need to be told
- ▶ Threats are real
- ▶ Criminals are real




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**Contact Information**



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*Thank You!*



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