

# Internal Controls

## Why Do We Need Strong Internal Controls?

To protect yourself & your employees

### Ultimate Goal

#### Protect your Assets

- ✓ From the time assets are received to the time they are booked
- ✓ To the point in which assets are removed from your system / books

## What Do I Need to Do?

- ✓ Assess the Level of Risk
  - Qualitative / Quantitative
  - Political Risk
  - Local Newspapers
- ✓ Identify Reasonable Controls
- ✓ Determine Benefits of Controls
- ✓ Implement Controls
- ✓ Document the Controls and the Performance of the Controls
- ✓ Monitor the Controls

## Tips

- ✓ There are no Absolutes
- ✓ Keys to Good Systems of Control
  - ⇒ Strong Documented Policies
    - Many entities have controls in place but they have not formalized or documented in policies or as procedures.
  - ⇒ Monitoring / Enforcement of Policies Must be Documented
    - Ex. Checklist for Review
  - ⇒ Documentation of any Deviations from Standard Practice / Policy

## Accounts Payable/ Cash Disbursements



### Common Risks:

- ✗ Checks Processed by Unauthorized Personnel
- ✗ Payments Made Based on Invalid or Unapproved Invoices
- ✗ Payments to Fictitious or Invalid Vendors
- ✗ Misuse of Hand Drawn Checks

### A good control system has these duties segregated:

- ✓ Setting Up Vendors
- ✓ Creating / Approving POs
- ✓ Processing Invoices
- ✓ Issuing Operating Checks

### Examples of Controls

- ❖ Access to Electronic Signature is limited.
- ❖ Review of Voided Checks
- ❖ Review of Voucher Packages
  - ⇒ Purchase Orders
  - ⇒ Invoices (Recalculation)
  - ⇒ Receiving Reports
- ❖ Approvals Prior to Payment
- ❖ Authorization for Creation of POs or Payment Request
- ❖ Password-ed Check printer
- ❖ Check Stock Locked up
- ❖ Review of New Vendors
- ❖ Payments /Encumbrances should be recorded on a daily basis
- ❖ Reconciliations

## Accounts Receivable/ Cash Receipts

### Common Risks:

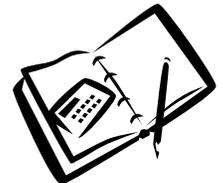
- ✗ Misappropriation of Funds Prior To Posting to the Accounting Records
- ✗ Not Crediting Appropriate Accounts Receivable, Duplication of Revenue
- ✗ Diversion of funds to improper accounts

### A good control system has these duties segregated:

- ✓ Establishing Bank Accounts In Entity's Name
- ✓ Receiving Cash,
- ✓ Depositing Cash
- ✓ Recording Cash
- ✓ Reconciling Cash

### Examples of Controls

- ❖ Sequential / Pre-Numbered Receipts
- ❖ Separation Between Individuals Receiving Money (Via Mail or In Person) and Individuals Posting to the General Ledger
- ❖ Separation Between Receiving Money and Depositing Money
- ❖ Establish number of days acceptable to hold receipts
- ❖ Establish maximum amount of cash that can be held in vault
- ❖ Petty Cash Procedures
- ❖ Check-Cashing Procedures
- ❖ Post BANNER daily
- ❖ Reconciliations



## Payroll / Benefit Disbursements

### Common Risks:

- \* Theft Due to Ghost Employee
- \* Check to Terminated/Inactive Employee
- \* Unauthorized Payroll Changes
- \* Undetected Mathematical or Data Entry Errors Due to Lack of Oversight
- \* Manipulation of Withholding Balances

### A good control system has these duties segregated:

- ✓ Setting up New Employees
- ✓ Setting up Direct Deposit Information
- ✓ Making Payroll Changes
- ✓ Processing Payroll Checks

### Examples of Controls

- ❖ Thorough Review of Initial Input
- ❖ Review Sample of Monthly Salaries
- ❖ Pay Adjustments Must be Approved/Reviewed By Payroll Director
- ❖ Calculations of employee Salaries Outside of System; Reviewed By Payroll Director
- ❖ Payroll Reports Compared to Initial Salary Calculations; Review of New Employees Added
- ❖ Distribution of Checks By Someone Outside of Payroll
- ❖ Review of Exception Reports



## Credit Card/Purchasing Cards

### Common Risk:

- \* Circumventing Expenditure Controls

### Examples of Controls:

- ❖ Strong Policy
  - Allowable Vendors By Dept
  - Thresholds
  - Allowable Items
- ❖ Voucher Packages
  - Matching Receipts to Statement
- ❖ Monitoring
  - Electronic File By Cardholder

## Access Controls

### Common Risk:

- \* Access Point Doors to a System/Data Via Computers, Networks, Applications, Database
- \* Inadequate Separation of Duties (Rights in System do not agree to established separation of duties structure.)

### Examples of Controls

- ❖ Physical
  - Doors, Locks
  - Card Keys
- ❖ Logical -
  - Passwords
    - Alphanumeric,
    - Expiration Periods,
    - Lock-Out
  - Virus Protection
  - Firewalls
  - Patch Management



## Environmental Controls

### Common Risk:

- \* Loss of Data Due to Environmental Factors such as Power Loss, Fire, or Water

### Examples of Controls

- ❖ Fire Suppression, Extinguishers, etc.
- ❖ Temperature Detection
- ❖ Moisture Detection
- ❖ Uninterruptible Power Sources or Generators

## Disaster Recovery Planning

### Common Risk:

- \* Loss of Data Due to Disaster. Disaster could include anything from loss of equipment due to viruses to loss due to tornado, flood, hurricane, or terrorist threats.

### Examples of Controls

- ❖ Strong Policy Required Consider:
  - ✓ Recovery Team and Contact List
  - ✓ Staffing assignments and needs
  - ✓ Identifying Critical Systems
  - ✓ Order of Restoration of the Critical Systems
  - ✓ Equipment Needs / Vendor Contacts
  - ✓ Alternative Policies and Procedures
- ❖ Review Policy Periodically
- ❖ Communication of Policy to Staff

**All Controls should be Documented, Monitored, and Reviewed on a regular basis by the Institution!!**