Internal Controls

FMC Monthly Meeting

March 30, 2023

Agenda

- What does it mean?

- What difference do internal controls make?

- Where can I find guidance?

- Future

- What impact will the new ERP have on internal controls?

Internal Controls

- What does it mean?

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Internal Controls – Objective

- A process that provides reasonable assurance that the **objectives of the organization will be achieved**.

- **Not one event, but a series of actions** that occur throughout an organization's operations.

- An **integral part** of the operational processes and not a separate system.

Internal Control Responsibility

- ***Everyone*** has a responsibility for internal controls

    - <u>Management</u> – directly responsible for the design, implementation, and operating effectiveness

    - <u>Staff</u> – assist management and are responsible for reporting issues

- External auditors are ***not*** considered part of an organization's internal control system.

Internal Controls

- What difference do internal controls make?

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Internal Control Importance

- "Why" should we all care about your internal control system:

    - Effective internal controls provides reasonable assurance that objectives of the organization will be achieved:

        - Accurate accounting records and financial reports
        - Maintain fiscal health of the State

- *Your* internal control system relating to accurate accounting records and financial reports should be documented in submissions to SAO.

Internal Controls and Statewide Reports

- SAO is responsible for compiling various Statewide reports:
  - Budgetary Compliance Report (BCR) - includes all State Organizations receiving Appropriations.
  - Annual Comprehensive Financial Report (ACFR) - annual audited financial statement for the entire State (includes all State Organizations).
  - Single Audit - annual audited publication containing information about the State's expenditures of Federal Awards.

- However, the data in these reports comes mainly from you at the State Organizations:
  - TeamWorks data
  - Year-end reporting forms
  - SEFA webportal (federal award data)

- SAO ***needs to know that internal controls are in place*** at each organization such that ***Statewide policies are being complied with and accurate Statewide reports*** can be produced.

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Internal Controls

- Where can I find guidance?

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Internal Control Locations

- Internal Controls can be found in various sources, including:
  - Governor's Executive Orders
  - Official Code of Georgia Annotated (O.C.G.A.)
  - Statewide guidance
  - Policies (Statewide and Agency specific)
  - Procedures (Statewide and Agency specific)
  - Etc.

Internal Control Locations

- Remember there may be Statewide guidance, but your State Organization may need more specific internal control related policies as well.

  - Statewide Guidance relating to internal controls:
    - SAO Policies and Procedures (https://sao.georgia.gov/policies-and-procedures)
      - Accounting Policy Manual
      - Business Process Policies
    - Statewide Internal Controls Guidance Chapters

  - Your State Organization guidance relating to internal controls:
    - Policy and Procedures Manual
    - Job Descriptions
    - Internal Controls submissions to SAO

Statewide guidance and policies impact each State Organization, for which you are responsible to understand the policy requirements and verify that the policies are being followed.

Policies and Internal Controls

- SAO is currently updating the Accounting and Business policies.
    - Some policies will just have format updates, and some have more detailed updates.
    - Notifications will be sent out as updated policies are posted.

- Remember these updated Statewide policies impact each State Organization, and as they are updated could require:
    - State Organization policies and procedures to also be updated.
    - Updates to the control activities included in the State Organization internal control submissions to SAO.

Recently Updated SAO Policies

- Recent updates in the Accounting Policy Manual:
    - Section: CATEGORY 1 – GENERAL GUIDELINES
        - Policy: State of Georgia Accounting Policy Structure
        - Policy: Fiscal Management Objectives
        - Policy: Management Responsibilities
        - Policy: GAAP Hierarchy & Link to GASB
        - Policy: Laws and Regulations
        - Policy: Glossary
    - Section: CATEGORY 4 - FINANCIAL ACCOUNTING AND REPORTING POLICIES AND PROCEDURES
        - Policy: Lease - Lessee Accounting
        - Policy: Capital Assets - General

- Recent updates in the Business Process Policies:
    - Section: Disbursements and Purchases
        - Policy: Payment Process

Internal Controls

- Future

Internal Control – Next Submission

- Control Environment and Risk Assessment/Control Activities
    - Will be due near end of fiscal year.
    - Similar to prior years' (start with previous responses).
    - Please **review carefully and update** as necessary, considering:
        - Any Changes?
        - Is it still valid?
        - Do the answers tie to the specific risk example?

- Upcoming submission may be collected via different format.
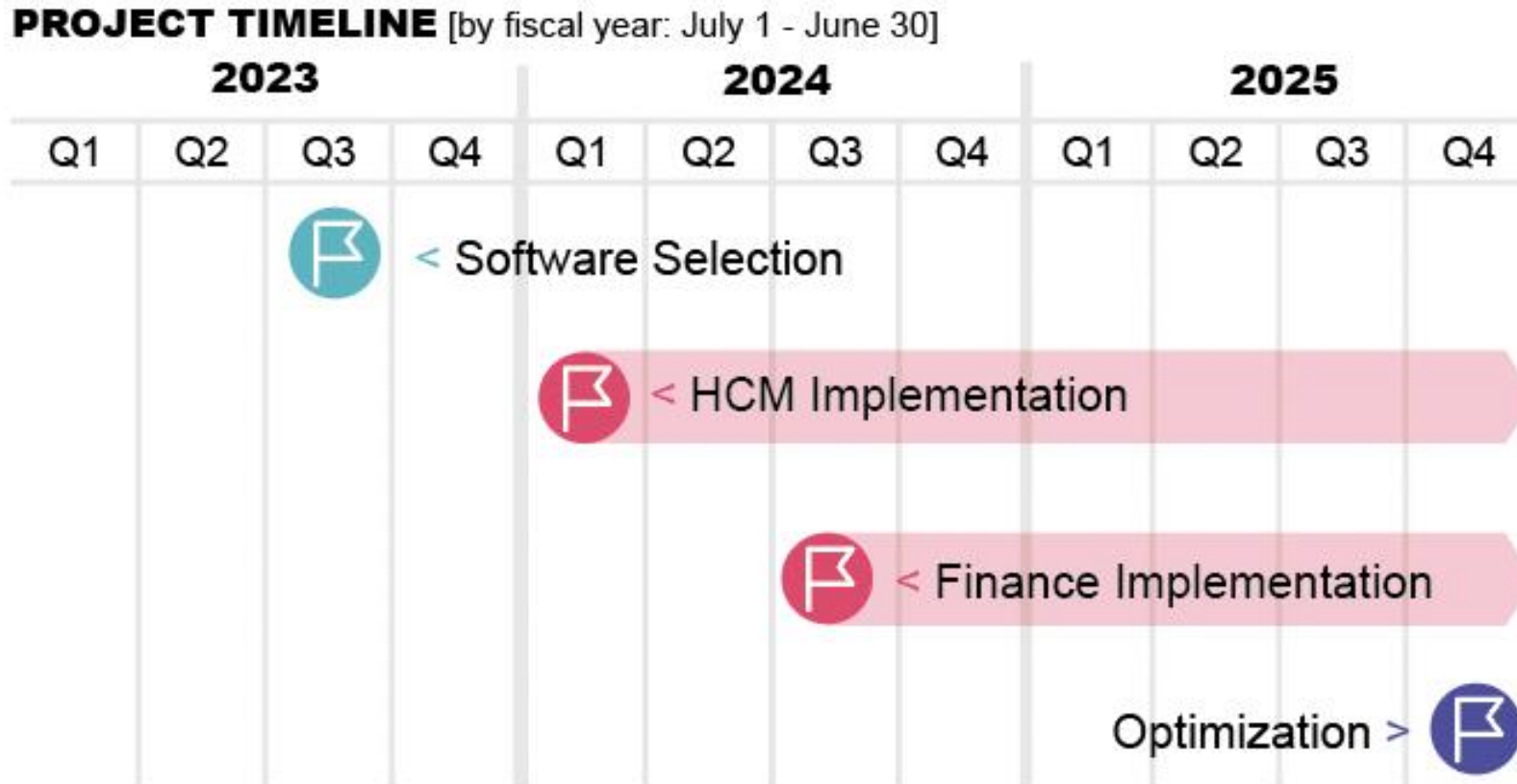
- More details to come!

Internal Control – Best Practice Guides

- SAO will be issuing more detailed internal control guidance.
    - Intent is to provide *suggestions* for control activities on the following topics:
        - Federal
        - Disbursements
        - Receipts

    - Included content will be:
        - Legal Guidance (if applicable)
        - State Organizations Impact
        - Internal Control Best Practices

- Remember the internal control submissions from your State Organization should detail control activities actually in place… don't use these best practice guides to give SAO the *"right answer"*.

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Internal Control – Best Practice Guides

- For example, in the Disbursements Best Practice Guide, instead of just listing that duties should be segregated…….. the guide will provide additional specifics, such as one individual should not be allowed to:
  - Create requisitions or purchase orders
  - Purchase goods or services
  - Receive items
  - Record payments in the accounting records
  - Approve payments
  - Perform reconciliations

New ERP – Where are We?

PROJECT TIMELINE [by fiscal year: July 1 - June 30]

	2023				2024				2025			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4

< Software Selection

< HCM Implementation

< Finance Implementation

Optimization >

THANK YOU for all of your assistance in business process workshops.

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New ERP Accounting for Costs

- GASB Statement 96 - Subscription Based Information Technology Arrangements (SBITA), requires activities associated with a SBITA to be grouped into certain stages.
  - The accounting for costs of each stage varies, and for ACFR reporting, certain SBITA costs will need to be removed from expense and instead be capitalized.

- Accounting and reporting guidance relating to costs for the New ERP was recently provided to your Point of Contact (POC).

- Project time:
  - Any time spent on new ERP project activities must be recorded:
    - For organizations using TeamWorks Time & Labor, combination codes can be used.
    - For TeamWorks organizations not using Time & Labor, a template was provided and must be provided to SAO on a quarterly basis.

- Other project costs:
  - TeamWorks: record new ERP expenses in the respective SBITA accounts in the State Chart of Accounts.
  - Non-TeamWorks: provide new ERP costs to SAO on a quarterly basis, via the summary excel template relating to project time.

Other Upcoming Items

- The procurement for the System Integrator for the new ERP will be issued soon.
  - There may be a lull in NextGen communications or inputs needed over the next few months.

- CFO meeting upcoming April 11th at 2pm.

- SBITA virtual training April 13th at 11am.

Internal Controls

- What impact will the new ERP have on internal controls?

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New ERP and Control Activities

- First let us refresh ourselves on some basic control activities concepts.

- Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.

- Control activities can be either preventive or detective, with the main difference being the timing:
  - <u>Preventive</u> – prevents errors from occurring, and preventing these errors helps an organization achieve an objective or addresses a risk.
  - <u>Detective</u> – detects errors or irregularities after it occurs. Also, detective controls discover when an organization is not achieving an objective or addressing a risk and corrects the actions before the organization's operation has concluded so that the organization can achieve the objective or address the risk.

- Generally, it is better to have a preventive control, then the transaction is actually stopped as opposed to being detected after the fact.

New ERP and Control Activities

- Control activities can be implemented in either an automated or manual manner:
  - <u>Automated</u> – control activities are either wholly or partially automated through the organization's information technology. Automated control activities tend to be more reliable because they are less susceptible to human error and are typically more efficient.
  - <u>Manual</u> – control activities are performed by individuals with minor use of the organization's information technology.

- Also, automated control activities tend to be more reliable and typically more efficient.

New ERP and Control Activities

- So, let us explore how automations could possibly be incorporated in the new ERP……
  - Linkage between Financials and HCM
    - Automates user access updates when employees leave or change roles.
  - More approval business process flows for transactions.
    - Verifies the necessary approvals occur and keeps the documented trail for audit purposes.
  - Limitations on certain chart of account types (i.e., account number and Federal type).
    - Limits need for future corrections.
  - Ways to see more "real time" data.
    - Less time between batches (or no batches) to allow users to see the impact of the transaction or adjustment they are entering, hopefully reducing the need for future adjustments.

Internal Control Impact – Statewide Reports

- Remember the main source of data for Statewide reports is your accounting records and information provided to SAO via year-end forms.

- So, as the new ERP is configured, reporting efficiencies will be built in as possible, looking for:
  - Ways to eliminate year-end forms.
  - Ways to match activity between the different State Organizations.
  - Ways to automate data collection, if not in ERP.
  - Etc.

Internal Control Impact - Policies

- Now we will dig in the details of one of the recently updated Business Process Policies and explore how can these could possibly be incorporated in the new ERP.

  - Recently updated <u>Payment Process</u> policy contains guidance relating to:
    - Segregation of Duties
    - Valid and Legal Purposes
    - Adequately Documented and Approved
    - Purchase Order Requirements
    - Payment Method Requirements
      - One Time Payments

Internal Control Impact - Policies

- Payment Process Policy
  - Segregation of Duties:
    - "One individual should not be allowed to create requisitions or purchase orders, purchase goods or services, receive items, record payments in the accounting records, approve payments, and perform reconciliations. If duties are not able to be segregated, then appropriate mitigating controls should be implemented."

- So, let us explore how automations could possibly be incorporated in the new ERP:
  - Plain language user access roles.
    - Easier to identify what user rights that role is providing the ERP, which could lead to less audit findings.
  - Warning or prevention of certain user access roles.
    - "Force" segregation of duties and safeguard State assets.

Internal Control Impact - Policies

Payment Process Policy

- Valid and Legal Purposes:
  - "Organizations must implement procedures to ensure that purchases and payments are made only for goods and services that are for valid and legal purposes. The organization should implement internal control procedures to ensure compliance with the Georgia Procurement Manual (GPM) and the Statewide Purchasing Card (P-card) policy. Also, there are numerous limitations specified in Federal and State laws and regulations, such as the Code of Federal Regulations (CFR), Official Code of Georgia Annotated (O.C.G.A.), Georgia Constitution, and Attorney General opinions that restrict items allowed to be paid. For example, payments for donations or gratuities, interest, late fees, and sales and use taxes are generally not a valid and legal purpose, and additional legal research should be performed prior to paying for these items."

So, let us explore how automations could possibly be incorporated in the new ERP:

- Warning or prompts relating to certain expense types.
  - Prompt the user that an error or potential inappropriate item is being paid for, which could lead to less improper payments or audit findings.
  - Shortcuts that help default common transactions to associate them to a federal grant or certain account chartfields, etc.
  - Limits the need for future corrections or limits federal questioned costs.

Internal Control Impact - Policies

- Payment Process Policy
  - Adequately Documented and Approved:
    - "Internal control procedures must be implemented by organizations to ensure that payments for goods and services are made for items that have actually been received and are supported by adequate and legitimate documentation. Procedures must also be established to ensure that payments are in accordance with terms and conditions of any agreements, such as purchase orders or contracts, and comply with terms such as, stated hourly rate, allowable services, and all other terms impacting the maximum amount to be paid allowed per the agreement.

- So, let us explore how automations could possibly be incorporated in the new ERP:
  - System check between purchasing, receiving documents and invoice prior to payment.
    - Prompt the user that an error or potential inappropriate item is being paid for, which could lead to less improper payments or audit findings.
  - Warning or prompt of needed documentation.
    - Verifies the necessary documentation is gathered, approvals occur and keeps the documented trail for audit purposes.

Internal Control Impact - Policies

- Payment Process Policy
  - Purchase Order Requirements
    - "Organization management should implement internal control procedures, such as using requisitions, for amounts less than $2,500 to ensure that goods and services have actually been requested and approved prior to payment."

- So, let us explore how automations could possibly be incorporated in the new ERP:
  - Warning or prompt for transactions over threshold amount.
    - Reminds users of policy requirements, and need to comply with them, which could lead to less improper payments or audit findings.

Internal Control Impact – Policies

- Payment Process Policy
  - Payment Method Requirements - One Time Payments
    - "The SINGLEPAY1 vendor ID can be used for refunds (original payment received via cash or check), rebates or one time transactions which are not 1099 applicable and are less than $600."

- So, let us explore how automations could possibly be incorporated in the new ERP:
  - Warning or prevention of using the SINGLEPAY1 vendor ID for transactions $600 or more.
    - Reminds users of policy requirements, and need to comply with them, which could lead to less improper payments or audit findings.

New ERP and Internal Controls

- Overall payment process…….

  - A person requests to purchase an item.
    - This currently may not be in the ERP, but hopefully would more be in the new ERP.
      - Then this would eliminate the need for another person to enter the activity in to the ERP.
  - Item is purchased.
    - This currently may not be in the ERP, but hopefully would be in the new ERP.
  - Item is received.
    - This currently may not be in the ERP, but hopefully would be in the new ERP.
  - Invoice is received.
    - This currently may not be in the ERP, but hopefully would be in the new ERP (with potential for automated invoice entry).
  - Payment is authorized – ERP would perform a match to compare requisition/purchase order to receiving documents to invoice.
    - These internal control steps would be in the new ERP and reduces risk of fraudulent payments.

New ERP and Internal Controls

- Remember though the new ERP can not be the **only** control activities in place.

- But why not?
  - There are still certain transactions that require people to be involved and can not fully in the ERP…. think about cash receipts:
    - A person provides a payment (either in person, mail, lockbox, etc.)
      - These internal control steps will mainly be outside of the ERP.
    - Then a person enters the activity in to the ERP.
    - A deposit is made (either in person, electronically, etc.)
      - These internal control steps will mainly be outside of the ERP.

New ERP and Internal Controls

- Remember State Organizations need to consider **all** risks that could impact their internal controls:
  - Remote vs. In office locations
    - Do you know where your documents are?
    - Do you know where your cash and checks received are?
  - Segregation of duties (job openings, staff shortages, etc.)
    - Who is picking up the extra task?
    - Is review being done?
  - Lack of knowledge (retirements, new hires, etc.)
    - Are all the steps being performed?
    - Does the person know why they are performing the steps?
    - Does the person have knowledge to perform the steps?

- Then consider if these risks can be mitigated by new ERP control activities or if not then ensure other manual control activities are in place.

Monitoring Internal Controls in the New ERP

- New ERP should have more reporting and data analytics capabilities that will make monitoring parts of the internal control system easier:

  - Easier to drill in to underlying data of a transaction, potentially all of the way back to the initiating documents.

  - Audit trails for many transactions.

  - Each user could change their reports, create graphs/charts.

  - Flexible data export options.

Questions

Where to Find Additional Information

- The Green Book is available on GAO's website at:
  - www.gao.gov/greenbook

- SAO's website:
  - http://sao.georgia.gov/internal-controls
  - http://sao.georgia.gov/policies-and-procedures
  - https://sao.georgia.gov/nextgen

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