Internal Controls

FMC Meeting
February 2022

SAO
State Accounting Office

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

- Management – directly responsible for the design, implementation, and operating effectiveness

- Staff – assist management and are responsible for reporting issues

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

Internal Control Importance

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

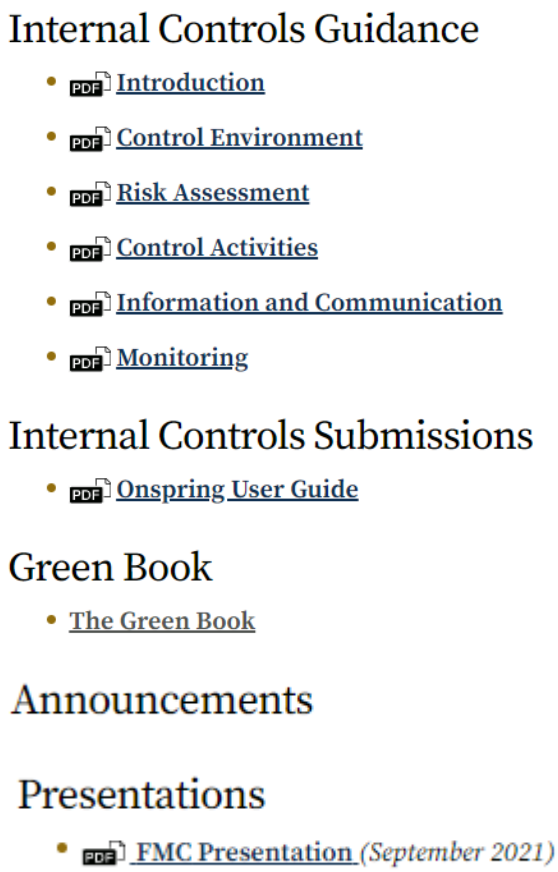
- Effective internal controls provides reasonable assurance that **objectives of the organization will be achieved:**
  - Accurate accounting records and financial reports
  - Maintain fiscal health of the State

Your internal control system relating to accurate accounting records and financial reports should be documented in submissions to SAO (via the online software Onspring).

Guidance Reminder

Remember there is internal control guidance on SAO's website:

- https://sao.georgia.gov/policies-and-procedures/internal-controls



Internal Controls Guidance

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

Internal Controls Submissions

- Onspring User Guide

Green Book

- The Green Book

Announcements

Presentations

- FMC Presentation *(September 2021)*

Overall Impact

- Remember your internal control system impacts all aspects of your organization and daily functions.

- Don’t wait for an audit finding before reviewing the internal control system design and operation.

- Also, don’t just think of it as completing the submission but more an overall culture change, training, discussion, etc.

Internal Control System

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Internal Control System Design

- Use a risk-based approach to identify the key risks, that would prevent an organization from achieving their objectives.
  - Drives allocation of more resources to the areas of highest risk.

- ***No*** two organizations should have an identical internal control system because of differences in factors such as mission, regulatory environment, size, and management's judgment.

Internal Control Process…….

1. Start by establishing objectives, for example:
   - "The accounting records comply with Standards and are complete and accurate."
2. Then identify risks getting in way of accomplishing the objective, for example:
   - Key assets are not all recorded at the proper amount, in the proper fund, in the proper account code or in the proper basis of accounting.
3. Consider how much risk are you willing to allow (risk tolerance)
   - Generally established as "de minimis"

……Internal Control Process

4. Consider “risk responses” already in place
   - Control activities component (common tasks)

5. Do any of those control activities offset the risk
   - If residual risk remains, need to consider response (which could be doing nothing)

Don’t forget, Organizations are still responsible for risks and control activities relating to:

- Service organizations (outside third parties)
- Fraud and Information Systems
- Etc.

Evaluation of Internal Control System

- Once system is in place, how is it working?

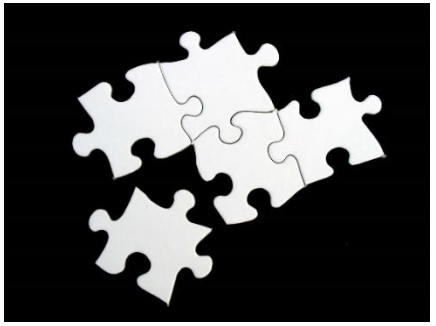
- Determine if the controls were :
  - applied at relevant times
  - in a consistent manner
  - by whom they were applied

A deficiency exists when a control does not operate as designed, or when the person performing the control does not possess the appropriate **authority or competence**.

Putting it all Together

- **Your internal control system should be what is recorded on the submissions to SAO.**
  - Document controls actually in place, don't just document the "right answer"

- **Also, this is not just an exercise to fill out something to be submitted to SAO, instead internal control system should monitored on an ongoing basis.**



Onspring Submissions

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Internal Control Submissions

- **Why all these submissions anyway…..**

- **Let us go back to the Green Book, and look at some quotes relating to documentation:**
  - "Documentation is a **necessary part** of an effective internal control system."
  - "Documentation **is required for the effective design, implementation, and operating effectiveness** of an entity's internal control system."

Now Back to Organization Submissions…

- **All of those steps in Onspring help to satisfy the Green Book minimum documentation standards as it …..**
  - Documents internal controls **currently in place**.
  - Documents areas of potential risk for control activities **not** currently in place.
  - Contains graphs/charts to visually show certain aspects of internal controls.

Therefore, it is important to have accurate information in Onspring.

Upcoming Submissions to SAO

Control Environment and Risk Assessment/Control Activities (RA/CA) submissions will be combined and **due before end of this fiscal year**:

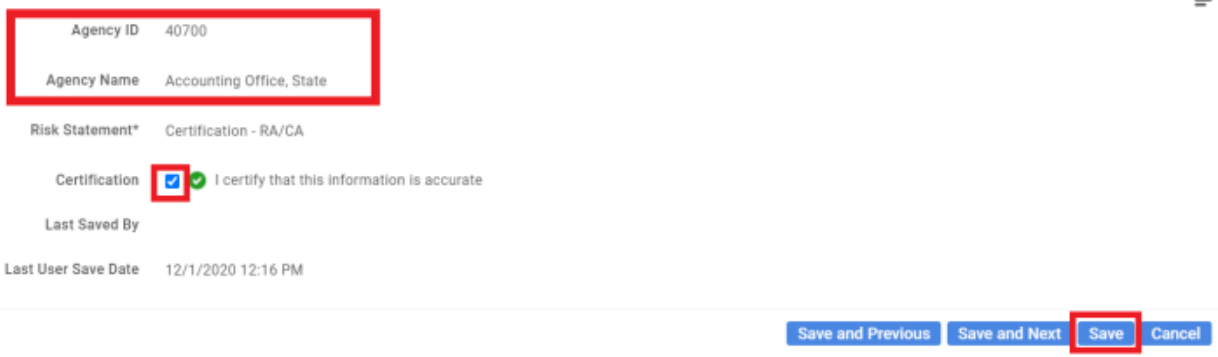
- Submissions will be done via Onspring
  - Continuously open for review and edit.
- Last year answers will be populated in Onspring
  - Also, all previous year answers are available for review in Onspring.

Remember…..all organizations will continue to review and certify these submissions annually.

Onspring Certification Reminder

Certification step not always done

f. In the Quick Edit window, validate that the "Assessing Organization/Agency" field is displaying the name of your Organization/Agency. If it is correct and you are ready to Certify the information, click the checkbox in the "Certification" field stating "I certify that this information is accurate".



g. Click Save and the record will close. The CFO validation is now complete.

Steps from Onspring User's guide on SAO's website: https://sao.georgia.gov/policies-and-procedures/internal-controls

Control Environment

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What is It?

Consider the first component – Control Environment:

- Foundation for an internal control system.
- Provides the discipline and structure, which impact the overall quality of internal control.
- Need to maintain an environment that sets a ***positive attitude toward internal control.***

Overall, it establishes and documents the tone that personnel should "do the right thing".

Control Environment Review

- All organizations will need to review their Control Environment submission in Onspring.

- Considering:
  - Any changes?
  - Is it still valid?
  - Is it detailed?
  - Do the answers tie to the Principle/Attribute?
  - Is it complete?
    - Are all applicable Principles/Attributes addressed?

Additional Things to Consider

Documenting your control environment:

- Items to Consider/Include:
  - Code of Ethics (is it easily available for review, are there yearly recertifications for all employees, and is it discussed and provided at new hire orientation)
  - Governor's Executive Order relating to Code of Ethics
  - OCGA sections (code of ethics and conflicts of interest)
  - Employment practices (hiring competent personnel, retaining personnel, evaluating performance, and holding personnel accountable for their responsibilities)
  - Etc.

Risk Assessment

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Next Steps - Consider

Consider the next component – Risk Assessment

- Management performs a risk assessment and develops appropriate risk responses which specify how risks will be handled.

- The nature and extent of management's risk assessment activities should be proportionate to the size of the organization and complexity of its operations.

Overall, it considers what could cause objectives not to be met and documents applicable responses.

Next Steps – RA/CA

Prior to Onspring Certification/Submission Consider:

- Any Changes?
- Is it still valid?
- Do the answers tie to the specific risk example?
  - Verify control activities are all in the correct column (not in risk justification columns)
- Is it Detailed?
  - Verify control activities are recorded at sufficient detail to be able to test
- Is it complete?
  - Are all applicable specific risk examples addressed?

Common Updates Needed

1. Risk Ratings and Justifications:

- Justification not provided for N/A responses

This step should not be N/A

Specific Risk Examples*	Likelihood	Likelihood Justification	Impact	Impact Justification
Reporting - Long-term Liabilities Form: - appropriate research not done to include all needed items	N/A	...	N/A	....
Recording - Debt (e.g. items owed that have a payment schedule, interest rate, etc.) is not all included in the accounting records.	N/A	N/A - no debt	N/A	N/A

Can be brief as shown here to support why N/A

Common Updates Needed

1. Risk Ratings and Justifications:

- Risk rating not correlating to other risk ratings

Specific Risk Examples*	Inherent Risk	Likelihood	Impact
Recording - Revenues are not recorded at the correct amounts in the accounting records.	High	N/A	Low

In this example, would expect risk ratings to all be N/A or only High/Medium/Low ratings (not N/A).

Risk Likelihood Reminders

Likelihood - Level of possibility that a risk will occur:

Without considering the **known control activities** (internal controls) actually occurring, analyze how ***likely*** the specific risk would be.

When answering in Onspring, certain factors to contemplate could be:

- Ease of access to asset
- Liquidity of the asset
- Manual vs automated processing
- Etc.

Risk Impact Reminders

<u>Impact</u> - Scale of the deficiency that could result from the risk occurring.

<u>Without</u> considering the **known control activities** (internal controls) actually occurring, analyze what the ***scale*** of the specific risk would be.

When answering in Onspring, certain factors to contemplate could be:

- Size
- Pace
- Duration
- Etc.

Risk Response Reminders

Management designs risk responses to respond to the analyzed risks. Responses could include:

- Acceptance - no action is taken
- Avoidance - action is taken to stop the operational process (for example, stop allowing cash to be collected offsite or stop collecting cash at all)
- Reduction - action is taken to reduce the likelihood or magnitude of the risk (for example, segregate duties, have more oversight, etc)

Common Updates Needed

1. Risk Ratings and Justifications:

- Residual Risk ratings low, however, key control activities utilized answered No

Risk Statement	Control Name	Detailed Description	Control Utilized?	Inherent Risk	Likelihood	Impact	Residual Risk	Residual Risk Justification
Reporting - Lease Agreement Data Form: - not completely filling out all of the required information - not including step information - included leases that are no longer valid - did not include the correct payment frequency with dollar amount reported - did not include correct lease duration or steps time period	Reconciliation	Reconciliations between year-end form and accounting records and/or supporting documentation are performed accurately and timely (before submission to SAO).	No	High	Medium	Medium	Low	Controls are in place to minimize the risk of incorrectly reporting leases.
Reporting - Lease Agreement Data Form: - not completely filling out all of the required information - not including step information - included leases that are no longer valid - did not include the correct payment frequency with dollar amount reported - did not include correct lease duration or steps time period	Accounting Guidance Review	Accounting standards and guidance from SAO (such as applicable Accounting Policies) are reviewed/consulted when completing year-end form.	No	High	Medium	Medium	Low	Controls are in place to minimize the risk of incorrectly reporting leases.
Reporting - Lease Agreement Data Form: - not completely filling out all of the required information - not including step information - included leases that are no longer valid - did not include the correct payment frequency with dollar amount reported - did not include correct lease duration or steps time period	Review - Approval of form	Management reviews year-end form (before submission to SAO) to ensure form is complete and accurate.	No	High	Medium	Medium	Low	Controls are in place to minimize the risk of incorrectly reporting leases.
Reporting - Lease Agreement Data Form: - not completely filling out all of the required information - not including step information - included leases that are no longer valid - did not include the correct payment frequency with dollar amount reported - did not include correct lease duration or steps time period	Review - Form completion	Management reviews reconciliations (before submission to SAO) to ensure they are being performed timely and accurately.	No	High	Medium	Medium	Low	Controls are in place to minimize the risk of incorrectly reporting leases.

Remember residual risk is the risk remaining after management's response (or consideration of internal controls)

Residual Risk Reminders

<u>Residual Risk</u> – Risk that remains after management's response to inherent risk

Considering **known control activities** (internal controls) actually occurring, analyze the ***level of the remaining risk*** for each of the specific risk examples.

When answering in Onspring, certain factors to contemplate, especially if a key control is missing:

- Is there some sort of mitigating control activity in place

OR

- There should be a plan to close that gap (by implementing the missing control activity)

Control Activities

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Control Activities Reminders

- **Actions management establishes through policies and procedures to achieve objectives and respond to risks (including fraud risks) in the internal control system**

- **When answering in Onspring, certain tips to answer Control Activities Section could be:**
  - Refer to Statewide Internal Control Guidance – Control Activities
  - Brainstorm with personnel responsible for that specific risk example
  - Review job description or procedures manuals

Control Activities Library

- Onspring contains library listing of standardized control activities:
  - Expected key controls that apply to almost all Organizations
  - Includes controls relating to the accounting systems, such as Teamworks
  - Differ by specific risk example step
- Organizations will identify if this control activity is currently **in place.**

Common Updates Needed

2. Control Activity Utilized:

- Risk ratings and justifications are N/A, however, control activity utilized has No or Yes answers (would expect Control Utilized to also be answered N/A)

Risk Ratings

Risk Statement	Control ID	Control Name	Detailed Description	Control Utilized?	Inherent Risk	Likelihood	Impact	Response
SEFA - Reconciliation of Schedule of Expenditures of Federal Awards (SEFA) to Federal Revenues form: - fund, amounts and account codes, etc. reported do not agree with accounting records and/or supporting documentation	SEF9	SEFA Management/Program Staff Inquiry	Appropriate personnel at the organization are consulted to ensure SEFA Webportal submission and related year-end forms are complete (contains all necessary information).	No	High	N/A	N/A	N/A
SEFA - Reconciliation of Schedule of Expenditures of Federal Awards (SEFA) to Federal Revenues form: - fund, amounts and account codes, etc. reported do not agree with accounting records and/or supporting documentation	SEF7	SEFA Reconciliation to RBE/URP forms	SEFA webportal submissions and related year-end forms along with RBE/URP year-end forms are performed accurately and timely (before submission to SAO).	No	High	N/A	N/A	N/A
SEFA - Reconciliation of Schedule of Expenditures of Federal Awards (SEFA) to Federal Revenues form: - fund, amounts and account codes, etc. reported do not agree with accounting records and/or supporting documentation	SEF15	Review - Staff Competence	Management reviewing the SEFA webportal submission, reconciliations, and year-end forms are competent (have appropriate degrees, training and/or experience).	No	High	N/A	N/A	N/A

Yes or No answers indicate the control activity should be in place as opposed to N/A that reflects it does not apply….not answering N/A when appropriate will skew Onspring reports/analysis.

Common Updates Needed

2. Control Activity Utilized:

- Control activity details are blank, however, control activity utilized has Yes answers **OR**
- Control activity utilized answered No, however, control activity details are listed
  - Control activity details is now a mandatory field

Risk Statement	Control ID	Control Name	Detailed Description	Control Utilized?	Inherent Risk	Likelihood	Impact	Response	Control Activity Details
Reporting - Post-Closing Adjustments Form: - not completely filling out all of the required information	RPT14	Accounting Guidance Review	Accounting standards and guidance from SAO (su	Yes	High	Low	Low	N/A	0
Reporting - Post-Closing Adjustments Form: - fund, amounts and account codes, etc. reported are not accurate and do not agree with accounting records and/or supporting documentation	RPT14	Accounting Guidance Review	Accounting standards and guidance from SAO (su	Yes	High	Low	Low	N/A	0
Recording - Cash (e.g. credit card, lockbox collections, cash on hand, LGIP, investments, etc.) is not all included or not recorded at the correct amounts in the accounting records.	RCD9	Bank Reconciliation	Reconciliations between bank and accounting re	Yes	High	0	0	0	0
accordance with accounting Standards and SAO Accounting Policies.	RCD33	Accounting Guidance Review	Accounting standards and guidance from SAO are	Yes	Medium	0	0	0	0

Information and Communication

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Information & Communication

- **Use of quality information to support the internal control system**

- **Effective information and communication are vital for an organization to achieve its objectives**

- **Management needs access to relevant and reliable communication related to internal as well as external events.**

Note: there are not specific Onspring questions relating to Information and Communication, however this concept is intertwined throughout the internal control system.

Monitoring

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Monitoring

- **Internal controls is a dynamic process and needs to be adapted continually to the risks and changes an organization faces.**

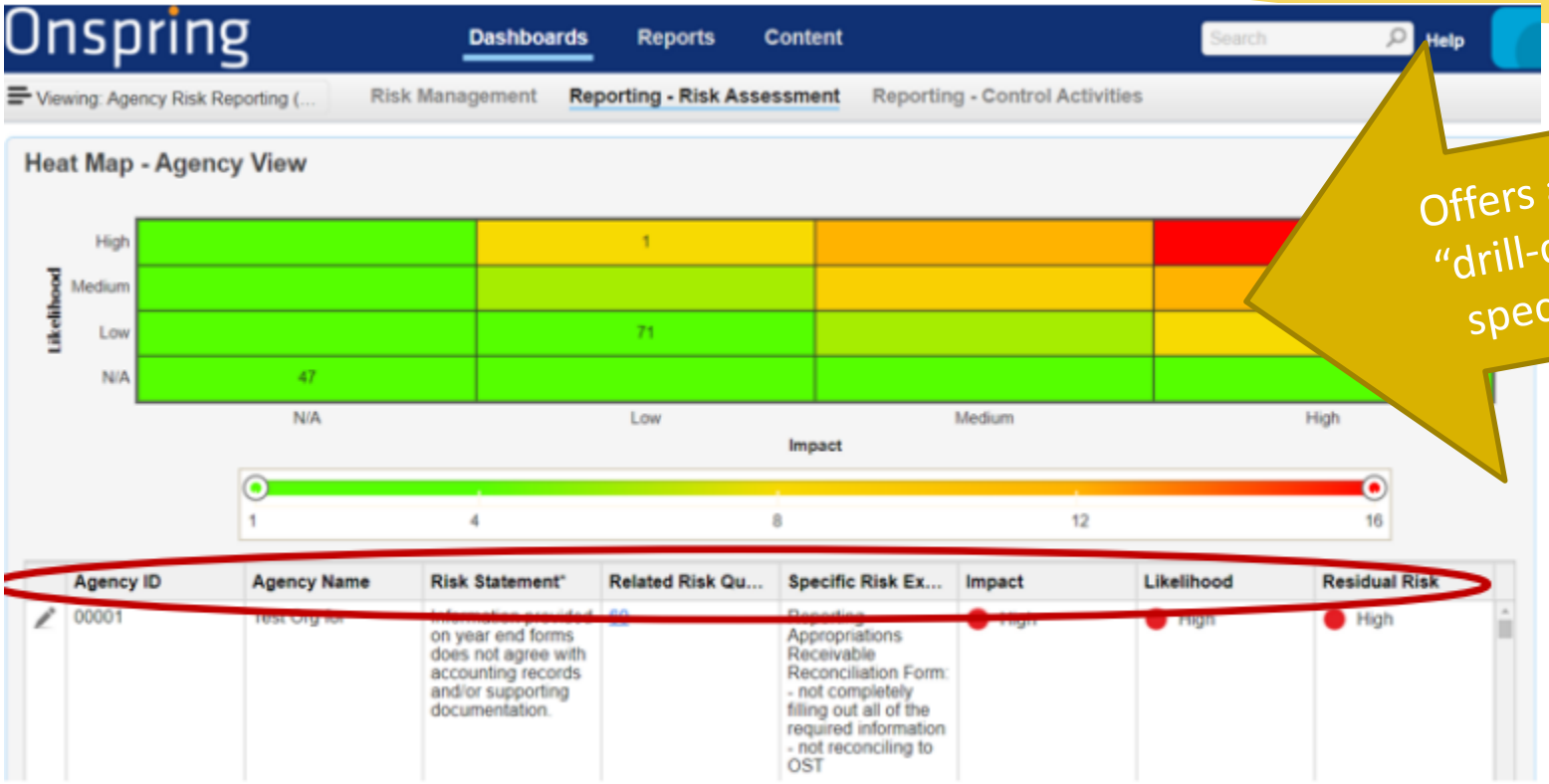
- **Helps internal controls remain aligned with changing objectives, environment, laws, resources, and risks.**

- **Assesses the quality of performances over time and promptly resolves the findings of audits and other reviews.**

Internal Control System Monitoring

- **Organizations should monitor the internal control system, reviewing for weaknesses. Onspring can help with this monitoring**
- **Onspring data and reports are accessible all year, to help monitor your Organization's internal control system.**
  - Review high or medium risk areas and ensure all control activities are being utilized for that risk area (via Onspring heat map)
  - Review for control utilized No answers and consider implementing missing control activity (via Onspring report or new pie chart)
  - Review high or medium residual risk areas and consider implementing necessary control activities (via Onspring bar graph)
  - Test control utilized Yes answers to ensure control activity is operating as designed (via Onspring report)

Monitoring Reports - Risk Likelihood/Impact



Offers ability to "drill-down" to specific data

"Drill-down" in red or orange areas, and look for ways to reduce risk to green (lower risk level).

Monitoring Reports - Control Activity Library

Review Steps with "no" for Control Utilized

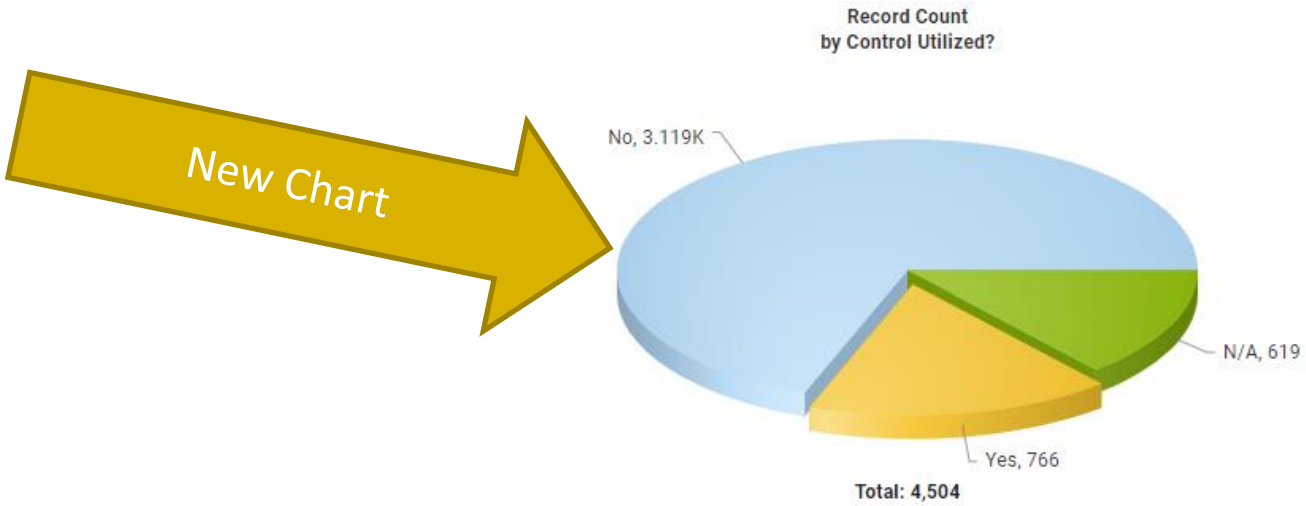
Control Exceptions - Recording

Agency/Organization ID	Agency/Organization Name	Risk Statement	Control ID	Control Name	Detailed Description	Control Utilized?
		Recording - Receivables are not recorded at the correct amounts in the accounting records.	ALL1	Written Procedures	Written procedures are established and regularly updated to ensure that knowledge is shared and retained. Procedures are included for all aspects, such as: accounting for transactions, financial close, reporting, etc.	No
		Recording - Receivables are not recorded at the correct amounts in the accounting records.	ALL2	Cross-Training	Cross-training of staff to ensure there is backup for critical departmental functions.	No
		Recording - Receivables that are not valid (such as receivables that are no longer collectible) are recorded in the accounting records (note: also consider State write-off limits).	ALL1	Written Procedures	Written procedures are established and regularly updated to ensure that knowledge is shared and retained. Procedures are included for all aspects, such as: accounting for transactions, financial close, reporting, etc.	No

Review control activities with no answers, and consider implementing these control activities to reduce risks.

Monitoring Reports - Control Activity Utilized Pie Chart

Control Utilized - Pie Chart



Filter By sefa

Create Content

Agency/Organization ID	Agency/Organization ...	Risk Statement	Control ID	Control Name	Detailed Description	Control Utilized?
		Reporting - Revenue Based on Encumbrances Form: - appropriate research not performed to include all needed items	RPT8	Reconciliation to SEFA	Reconciliations between year-end form and amounts reported on SEFA reconciliation are performed accurately and timely (before submission to SAO)	No

Review control activities with no answers, and consider implementing these control activities to reduce risks.

Control Activities Monitoring

- **Remember management is directly responsible for all activities of an organization, including the design, implementation, and operating effectiveness of an organization's internal control system.**
  - If the answer actually is No, what other mitigating control is in place?
  - Should the process be changed to implement this key control activity?

- **Now let us look at certain key control activities, reported as not in place, but they are important…..**

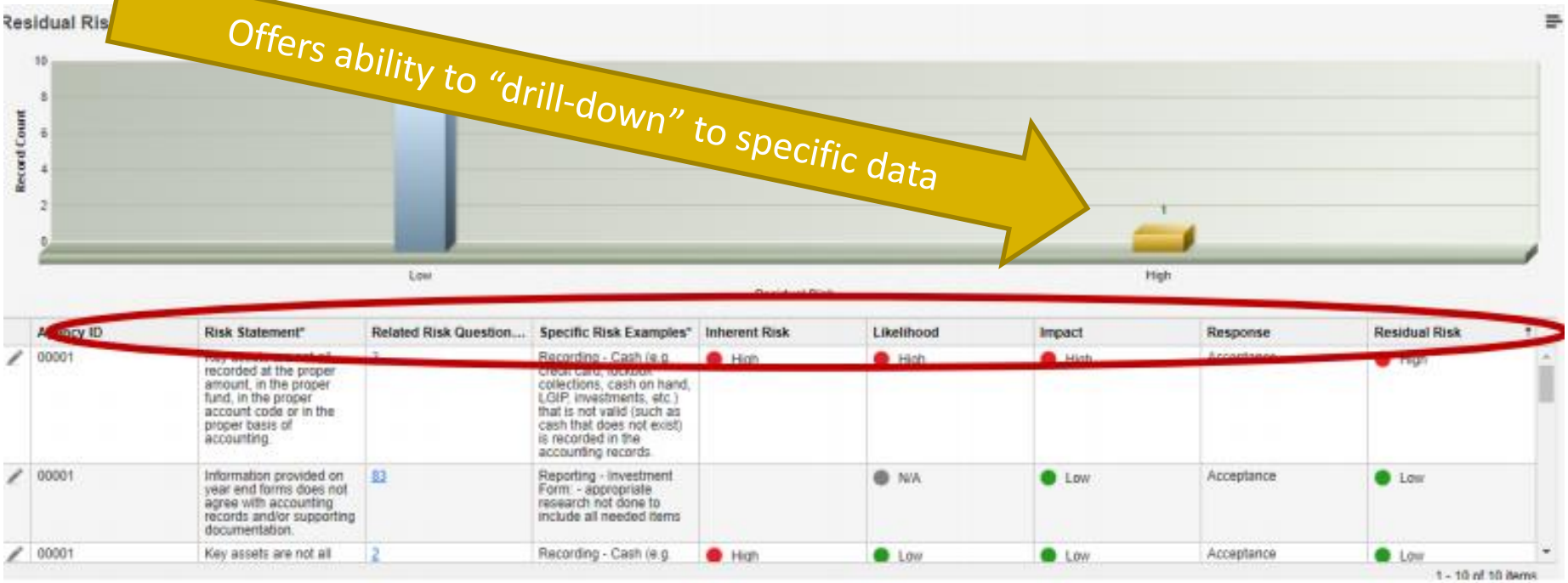
Control Activities Monitoring

- **As an example…. reconciliations are a key detective control activity for many risk areas, as they identify errors, misstatement, theft, etc.**
  - If the answer actually is No, do other yes control activity steps provide mitigating controls to offset this No?
  - Should the process be changed to implement this key control activity?
  - Or was the wrong answer provided in Onspring.

Control Activities Monitoring

- **As an example…. segregation of duties is a key preventive control activity for many risk areas, to help reduce errors, misstatement, theft, fraud, etc.**
  - If the answer actually is No, what other mitigating control is in place?
  - Should the process be changed to implement this key control activity?
  - Or was the wrong answer provided in Onspring.

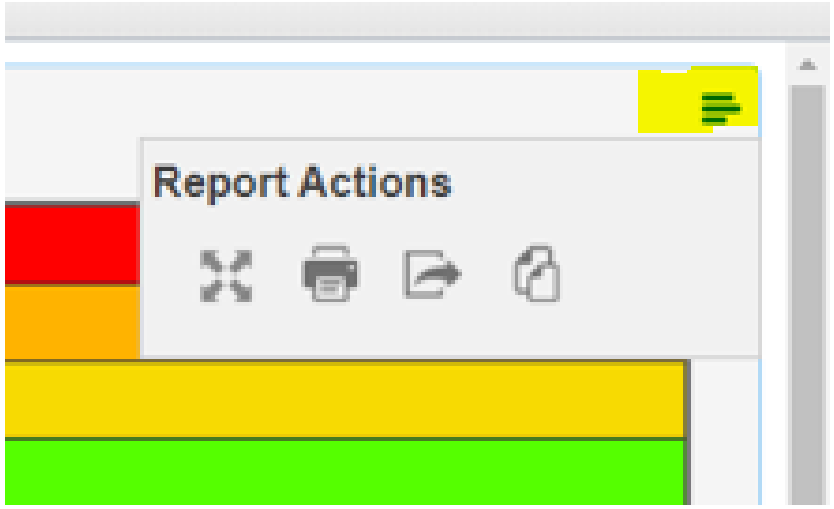
Monitoring Reports - Residual Risk



"Drill-down" for steps with high residual risk, and consider implementing additional control activities to reduce to medium or low.

Onspring – Other Monitoring Options

Most every Onspring page has option to export to excel or print the information.



Questions

Where to Find Information

The Green Book is available on GAO's website at:

www.gao.gov/greenbook

SAO's website:

https://sao.georgia.gov/policies-and-procedures/internal-controls

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