



# Internal Controls FMC January 2018

# Agenda

- ✓ **Introduction**
- ✓ **Recap – Where are We?**
- ✓ **Let's Talk Words**
- ✓ **Your Questions**
- ✓ **Risk Assessment**
- ✓ **Control Activities**
- ✓ **Looking to the future.....**

# Recap – Where are We?



# Status Check



- **Statewide internal control framework, based on Green Book:**
  - Guidance for all 5 Components has been issued
- **Organization Submissions**
  - Control Environments were resubmitted in October
  - RA/CA templates will be due to be resubmitted tentatively April 30<sup>th</sup>
  - Monitoring still not required on template (at this time)

**Going forward all organizations will continue to review and update submissions on an annual basis**

## Prior to Certification/Submission Consider:

- Are changes needed to Risks/Control Activities previously documented?
- Is it still valid?
- Are there specific risk rows that should be added?
- 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?



**Let's Talk "Words"**

**Risk Assessment**



- **But where is the line of risk justification vs. where control activities start**

- Are you listing generic/hypothetical concepts related to that specific risk example....

This would generally be applicable as a risk justification.

- Are you listing things specific to your Organization.....
- Are you listing specific tasks performed (that could be contained in a job description).....

Then most likely the answer has crossed over and would be considered control activities (not risk justification).



# Risk Assessment Wording Discussion.....



## Suggested Wording Revision.....

Specific Risk Example	Original Wording	Revised Inherent Risk Justification
Revenues are not all included or not recorded at the correct amounts in the accounting records	The risk is low because of our centralized and small organizational structure, experienced employees and separation of duties	<p><b>High:</b> Revenue is inherently risky because <u>independent judgment</u> used to identify transactions, and is a driver of ability to spend.</p> <p><b>Medium:</b> Open to <u>judgment and manual process</u>, but only one revenue received</p> <p><b>Low:</b> Not typical</p>



# Risk Assessment Wording Discussion.....



## Suggested Wording Revision.....

Specific Risk Example	Original Wording	Revised Likelihood Risk Justification
Revenues are not all included or not recorded at the correct amounts in the accounting records	Rated medium, because the process is manual, there are numerous sources of revenues and a high volume of transactions.	<b>High:</b> <u>Manual process, received from variety of other departments.</u>  <b>Medium:</b> <u>Volume of transactions are low.</u>  <b>Low:</b> Not typical

# Risk Assessment Wording Discussion.....

## Suggested Wording Revision.....

Specific Risk Example	Original Wording	Revised Impact Risk Justification
Revenues are not all included or not recorded at the correct amounts in the accounting records	Rated low, because material revenue received via wire transfer and credit card transactions.	<p><b>High:</b> Although volume of transactions is low, the <u>dollar value of each transaction is relatively high.</u></p> <p><b>Medium:</b> <u>Could significantly impact Organization and attached agencies; however, amount of non-State appropriation revenue is minimal.</u></p> <p><b>Low:</b> Not typical</p>



**Let's Talk "Words"**

**Control Activities**



# Control Activities Wording Discussion.....



## Suggested Wording Revision.....

Specific Risk Example	Original Wording	Revised Control Activities
Revenues are not all included or not recorded at the correct amounts in the accounting records	Organization can assure these transactions are all included and recorded at the proper amounts only through layers of control activities..... There are a variety of system and manual controls.....	1. Multiple controls have been established to prevent and/or detect inherent and/or fraud risk. Key controls are as follows: - <b><u>maintains formal job descriptions and performance plans that clearly outline duties.</u></b>

# Control Activities Wording Discussion.....



## Suggested Wording Revision.....

Specific Risk Example	Original Wording	Revised Control Activities
Revenues are not all included or not recorded at the correct amounts in the accounting records	Organization can assure these transactions are all included and recorded at the proper amounts only through layers of control activities..... There are a variety of system and manual controls.....	<ul style="list-style-type: none"><li>- recruits/hire accounting personnel that have educational (accounting degree) and related experience.</li> <li>2. Principal Accountant prepares <b><u>monthly AR and AP to GL reconciliations.</u></b></li></ul>

# Control Activities Wording Discussion.....

## Suggested Wording Revision.....

Specific Risk Example	Original Wording	Revised Control Activities
Revenues are not all included or not recorded at the correct amounts in the accounting records	Organization can assure these transactions are all included and recorded at the proper amounts only through layers of control activities..... There are a variety of system and manual controls.....	<b>3. <u>Accounting Manager reviews/approves</u> the module reconciliations on a monthly basis.</b> <b>4. Accounting Director meets with Accounting Manager and discusses next period activities to record/correct reconciling items.</b>

# Control Activities Wording Discussion.....



## Suggested Wording Revision.....

Specific Risk Example	Original Wording	Revised Control Activities
Revenues are not all included or not recorded at the correct amounts in the accounting records	Organization can assure these transactions are all included and recorded at the proper amounts only through layers of control activities..... There are a variety of system and manual controls.....	5. Both <b><u>Director and Manager uses GL080 queries to review account balances and flux analysis.</u></b> 6. Both Director and Manager maintain knowledge of SAO policies and have competencies to ensure policies are followed.



# Control Activities Wording Discussion.....



## Suggested Wording Revision.....

Specific Risk Example	Original Wording	Revised Control Activities
Revenues are not all included or not recorded at the correct amounts in the accounting records	Organization can assure these transactions are all included and recorded at the proper amounts only through layers of control activities..... There are a variety of system and manual controls.....	7. Aging schedules are reviewed on a monthly basis. 8. <b><u>On an annual basis, Accounting Manager reconciles State Appropriation Revenues to the Appropriation Act (OST) and the OST Allotment ledger.</u></b>

## Suggested Wording Revision.....

Specific Risk Example	Original Wording	Revised Control Activities
Revenues are not all included or not recorded at the correct amounts in the accounting records	Organization can assure these transactions are all included and recorded at the proper amounts only through layers of control activities..... There are a variety of system and manual controls.....	9. The <b><u>Accounting Director reviews</u></b> reconciliation for accuracy. 10. On monthly basis, <b><u>Principal Accountant reconciles the Federal revenues to Federal Agency disbursement schedule. (Financial Reporting Manager reviews)</u></b>

# Control Activities Wording Discussion.....



## Suggested Wording Revision.....

Specific Risk Example	Original Wording	Revised Control Activities
Revenues are not all included or not recorded at the correct amounts in the accounting records	Organization can assure these transactions are all included and recorded at the proper amounts only through layers of control activities..... There are a variety of system and manual controls.....	11. On a monthly basis, Principal Accountant and Senior Accountant <b><u>reconciles grants disbursement to grant receipts.</u></b> 12. The Financial Reporting Manager <b><u>reviews reconciliation for accuracy.</u></b>

# Next steps would be Monitoring.....

Detailed Control Activities will allow for monitoring, to ensure that controls are operating as designed

Specific Risk Example	Revised Control Activities	Possible Monitoring Activities
Revenues are not all included or not recorded at the correct amounts in the accounting records	5. Both <u>Director and Manager uses GL080 queries to review account balances and flux analysis.</u>	Discussion with Director and Manager with review of documentation for queries used and flux analysis (along with related follow-up).

# Monitoring Wording Discussion.....



Detailed Control Activities will allow for monitoring, to ensure that controls are operating as designed

Specific Risk Example	Revised Control Activities	Possible Monitoring Activities
<p>Revenues are not all included or not recorded at the correct amounts in the accounting records</p>	<p>8. <u>On an annual basis,</u> <u>Accounting Manager reconciles State Appropriation Revenues to the Appropriation Act (OST) and the OST Allotment ledger.</u></p>	<p>Discussion with Accounting Manager of steps performed during reconciliation. Verify Accounting Manager did actually perform the reconciliation, and verify amounts do agree.</p> <p>If discrepancies were found, verify they were adequately eliminated or explained, and did not contain any unsupported adjustments (“plug numbers”).</p>

# Your Questions





# Risk Assessment



# Important Things to Remember

- Consider what risks will get in the way of accomplishing the objective
  - Break down in to specific risks, (add rows to template) as necessary
- Need to consider for service organizations (outside third parties) too! (ex: Teamworks infrastructure is outsourced but SAO is still responsible for risks and internal controls relating to that outsourced work)
- Consider fraud and Information System related risks throughout

# Risk Section of the RA/CA Template.....



Statewide Guidance Attribute 6.1	7.1		7.1		7.2		7.2	
Financial Reporting Obj.	Risk	Specific Risk Examples	Risk Analysis - also see Risk Level Definitions tab					
A	B	C	E	F	G	H	I	J
The accounting records comply with Standards and are complete and accurate	Key revenues are not all recorded at the proper amount, in the proper fund and in the proper account code or in the proper basis of accounting.	Revenues are not all included or not recorded at the correct amounts in the accounting records	Inherent Risk	Inherent Risk Justification	Likelihood	Likelihood Justification	Impact	Impact Justification

- **Refer to Statewide Internal Control Guidance – Risk Assessment**
  - Each attribute area is broken in to different sections:
    - Concept
    - Management Responsibilities
    - Key Importance to Internal Control
    - Examples

## 7.1. Identification of Risks

### Concept

The identification of risks detects risks impacting the organization's achievement of their defined objectives, and allows for the risks to be analyzed and risk responses to be designed. This identification is the start of the risk assessment process.

### Management Responsibilities

Management identifies risks by considering various factors:

- The types of risks that impact the organization:
  - Inherent risk – risk to the organization in the absence of management's response to the risk
  - Residual risk – risk that remains after management's response to inherent risk.
- All significant interactions within the organization and with external parties
- Quantitative and qualitative ranking activities, forecasting and strategic planning, and consideration of deficiencies identified through audit and other assessments
- Changes within the organization's internal and external environment and other internal and external factors, at both the entity and transaction levels:
  - Internal factors may include the complex nature of an organization's programs (level of judgment or special skills needed to come up with

# Example of Risk Assessment Guidance.....

## Key Importance to Internal Control

Management's lack of identification of the appropriate risks could cause deficiencies in the internal control system because the analysis and response of the risks would not be appropriate.

## Examples<sup>1</sup>

- Management ensures proper risks are identified for the defined objectives. Some possible examples based on external financial reporting objectives could include:
  - The financial reports and/or year-end forms do not comply with accounting standards (items are not recorded at the proper basis) because staff was not knowledgeable of current accounting guidance
  - The financial reports and/or year-end forms are not prepared and/or reviewed by the appropriate personnel
  - The financial reports and/or year-end forms are not complete because all items were not recorded
  - The financial reports and/or year-end forms do not contain accurate amounts because the amounts provided were at the wrong period end (such as May 31 and not June 30)
  - The financial reports and/or year-end forms are not available on a timely basis because it is after the respective due date, however, the accounting records are still not closed

- **Brainstorm with personnel responsible for that specific risk example**
- **Update for common themes**
  - Cells left blank with no further reasoning
  - Items marked N/A with no further reasoning
  - Risk justifications not applicable to specific risk example (or not supporting risk rating)
  - Specific risks not added for significant areas of Organization (especially if something was deemed significant to CAFR)
  - Risk justifications for inherent, likelihood and/or impact improperly consider control activities currently in place





# Control Activities



# Important Things to Remember

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

**You want to make sure you have captured the entire process in detail, such as:**

- Documenting all control activities/tasks that are performed with specifics such as:
  - Who does it
  - What is done
  - When is it done
  - How often is it done
  - Who reviews it
  - Etc

## Why does it matter if I list the details of the control activities?

- Control activities document what tasks are actually occurring in response to risk ratings
- Control activities will be “monitored” going forward
  - Want to make sure you are monitoring the right things
- Control activities documented, support the residual risk rating

# Control Activities Section of the RA/CA Template.....



			Control Activities Section	
Statewide Guidance Attribute 6.1	7.1		10.1, 10.2, 10.3, 10.4, 11.2 and 12.1	10.1, 10.2, 10.3, 10.4, 11.2 and 12.1
Financial Reporting Obj.	Risk	Specific Risk Examples		
			Control Activity considerations	Your Control Activities detailed for EACH applicable specific risk examples (as needed in accordance with the <a href="#">Risk Level Definitions</a> tab)
The accounting records comply with Standards and are complete and accurate	Key revenues are not all recorded at the proper amount, in the proper fund and in the proper account code or in the proper basis of accounting.	Revenues are not all included or not recorded at the correct amounts in the accounting records	<ol style="list-style-type: none"> <li>1. Verify person(s) maintaining the accounting records are competent</li> <li>2. Have specific control activities in place such as routinely preparing reconciliations between balances per accounting records and detail records such as billing records</li> <li>3. Verify accounting record is being reviewed routinely by a separate person(s) who are competent and they ensure all revenue is recorded, and verify reconciliation was performed accurately</li> </ol>	<b>bold significant controls</b>

- **Refer to Statewide Internal Control Guidance – Control Activities**
- **Brainstorm with personnel responsible for that specific risk example**
- **Review job description or procedures manuals**

- **Update for common themes**

- Cells left blank with no further reasoning
- Items marked N/A with no further reasoning
- Control activities not applicable to specific risk example (you most likely will not be able to come up with one answer and paste to multiple rows)
- Control activities not detailed or significant controls not bolded
- Specific risks not added for significant areas of Organization (especially if something was deemed significant to CAFR)

- Did you consider/include controls activities relating to payroll transactions?
  - Including gross payroll (not just net payroll)
- Did you consider/include controls activities relating to automated controls?
  - User Access
- Did you consider/include controls activities relating to automated transactions?
  - Payroll automatic calculations/postings
  - Travel automatic calculations/postings

- Did you consider/include controls activities relating to segregation of duties?
  - Person recording does not receive goods
  - Person responsible for payroll does not have access to HR functions
  
- Did you consider/include controls activities relating to the entire process?
  - Example: From purchase request, to recording, to receipt, to payment, etc.





# Looking to the Future



# Remaining Components

- **Information and Communication**
- **Monitoring**



- Pertinent information must be identified, captured, and communicated in a form and timeframe that enables people to carry out their responsibilities.
- All personnel must receive a clear message from top management that internal control responsibilities must be taken seriously.

- Everyone must understand their role in the internal control system, as well as how individual activities relates to the work of others.
- This component is intertwined with all aspects of the internal system, and therefore, there will not be a separate submission required

# Monitoring

- Essential in helping internal controls to remain aligned with changing objectives, environment, laws, resources, and risks.
- Assesses the quality of performance over time and promptly resolves the findings of audits and other reviews.

# Monitoring

- 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**.
- Corrective actions relating to the internal control system are a necessary complement to control activities in order to achieve objectives.

# Future

SAO will:

- Annually request updated and/or new submissions
  - Require monitoring
- Offer additional trainings



To be continued.....



# Where to Find Information



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

[www.gao.gov/greenbook](http://www.gao.gov/greenbook)

SAO's website:

<http://sao.georgia.gov/internal-controls>

My Contact Information:

[Rachael.Krizanek@sao.ga.gov](mailto:Rachael.Krizanek@sao.ga.gov)