Internal Controls

FMC Conference
October 2017

SAO
State Accounting Office

Agenda

- ✓ **Why Internal Controls?**
- ✓ **What Now?**
- ✓ **Control Environment**
  - Let's Talk "Words"
- ✓ **Risk Assessment/Control Activities (RA/CA) Template**
  - Let's Talk "Words"

Why Internal Controls?

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But really "why" should we care about our Internal Control System:

- Effective internal controls provides reasonable assurance that **objectives of the organization will be achieved:**
  - Accurate financial reports
  - Maintain fiscal health of the State
  - Accomplishing the mission of your organization
- **Remember in government we are ultimately protecting and serving the taxpayer**

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.

Status Check

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Statewide internal control framework:

- **Guidance has been issued for all 5 Components**
  - Control Environment – issued March 2016
  - Risk Assessment – issued August 2016
  - Control Activities – issued August 2016
  - Information and Communication – issued February 2017
  - Monitoring – issued February 2017

Located on SAO's website:

https://sao.georgia.gov/internal-controls

What Now?

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Next Steps

- **Monitoring,**
  - Nope, not Yet……

- **Let us focus on getting previous submissions:**
  - Updated
  - More detailed
  - Answers more directly related to Principle/Attribute or Specific Risk

Back to Control Environment

- All organizations will need to review their Control Environment documentation

- 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?

Control Environment Submission

- All organizations must submit to SAO:
  - Certification signed by Agency Head and CFO
  - Updated Control Environment documents, as necessary

- Due to SAO Friday, **October 13th**

Going forward all organizations will continue to do this review and certification on an annual basis

RA/CA Template Submission

- All organizations will need to review their Risk Assessment/Control Activities template

- Certifications and updated submissions will due to SAO in the Spring 2018

Going forward all organizations will continue to do this review and submission on an annual basis

Next Steps – RA/CA template

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Prior to 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?

Control Environment

Common Themes

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Common items from control environment submissions (from April 2016) that could be improved:

- Specifics not included relating to the **oversight body** in all necessary attributes (as indicated in guidance)
- Wording in Narrative section is not detailed
- Wording in Narrative section is not addressing Principle/Attribute
- Principles/Attributes not addressed and no further reasoning provided
- Items marked N/A with no further reasoning

But why does this matter?

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Issue	Why Important
Specifics not included relating to the oversight body in all necessary attributes	This could lead to an inappropriate conclusion relating to what controls are in place.
Wording in Narrative section is not detailed	Which could lead to some missing controls when it is time to test/monitor the system.
Wording in Narrative section is not addressing Principle/Attribute	

Ultimately you will be monitoring/testing controls in place so you want to capture them all in a detailed manner

But why does this matter?

Issue	Why Important
Principles/Attributes not addressed and no further reasoning provided Items marked N/A with no further reasoning	No support to determine why unanswered or why N/A. So reviewer could (mis)interpret: • Item was overlooked • Item was not applicable • Someone was unsure of how to answer • Someone else was supposed to answer it

Let's Talk "Words"

Control Environment

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Control Environment Guidance……

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2.2. Oversight for the Internal Control System

Concept

The oversight body provides assistance and direction to management in relation to internal controls.

Oversight Body Responsibilities

- The oversight body analyzes, discusses and scrutinizes management's design, implementation and operation of the five components of the organization's internal control system.
- The oversight body also oversees management's design, implementation and operation of the organizational structure, so that the processes necessary to enable the oversight body to fulfill its responsibilities exist and are operating effectively.

Key Importance to Internal Control

The oversight body provides another level to assist and oversee management's decisions relating to internal control.

Control Environment Wording Discussion……

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Original Wording…..

Attribute	Narrative
2.2 Oversight for the Internal Control System (by oversight board)	These audits are conducted to ensure the following: • State and Federal funds are administered and expended in compliance with applicable statues and regulations • Programs are achieving the purpose for which they were authorized and intended • Financial statements accurately represent the operating results and financial position • Internal controls exist

Does the answer in the Narrative section seem like an ***applicable*** answer to the attribute? Is the auditor a part of the internal control system?

Control Environment Wording Discussion……

Suggested Wording Revision……

Attribute	Original Wording	Revised Narrative
2.2 Oversight for the Internal Control System (by oversight board)	These audits are conducted to ensure the following……	At a minimum, the Oversight Board meets with the Agency Head and Agency Deputies monthly and more often as necessary, to receive updates on agency performance, changes, key personnel, any potential ethical/standards of conduct issues, budgetary and financial concerns, as well as other key areas of responsibilities.

Control Environment Wording Discussion……

Suggested Wording Revision (continued)……

Attribute	Original Wording	Revised Narrative
2.2 Oversight for the Internal Control System (by oversight board)	These audits are conducted to ensure the following……	Occasionally and based on the topic, Deputies may request that a manager attend meetings with the oversight board.

Control Environment Guidance……

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3.2. Assignment of Responsibility and Delegation of Authority

Concept

Clearly assigning who is responsible for certain aspects of the internal control system and delegating authority as necessary.

Management Responsibilities

- Management assigns responsibilities and delegates only the authority needed to key roles to enable the organization to meet its objectives.
- The personnel in key roles are generally senior management, and they can further assign responsibility to roles below them, but they retain ownership for fulfilling that responsibility.
- Management considers proper segregation of duties while delegating authority.

Key Importance to Internal Control

Clear assignment of responsibility will help ensure personnel understand their internal control responsibilities and delegation of authority will help personnel be able to perform their duties. Additionally, segregation of duties is important because it helps prevent fraud, waste, and abuse by having separate authority, custody and accounting in the organizational structure.

Control Environment Wording Discussion……

Original Wording…..

Attribute	Narrative
3.2 Assignment of Responsibility	See agency Org Chart (attached)*

* Review of Org chart shows basic hierarchy and functional categories (but not titles of staff, other details, etc.)

Does the answer in the Narrative section seem ***detailed***?

Control Environment Wording Discussion……

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Original Wording…..

Attribute	Narrative
3.2 Assignment of Responsibility	See agency Org Chart (attached)*

Certain details should be added, such as:

- What responsibilities are assigned to staff?
- How is staff aware of the responsibilities assigned to them?
- Are the responsibilities ever reviewed and updated, as necessary?
- Etc.

Control Environment Wording Discussion……

Suggested Wording Revision……

Attribute	Original Wording	Revised Narrative
3.2 Assignment of Responsibility	See agency Org Chart (attached)*	The management and reporting levels in the organizational chart indicate the relationships, chain of command and assignment of responsibility within the Agency. It provides a clear understanding of the relationship between units as well as authority and responsibility within the units.

Control Environment Wording Discussion……

Suggested Wording Revision (continued)……

Attribute	Original Wording	Revised Narrative
3.2 Assignment of Responsibility	See agency Org Chart (attached)*	Employees are assigned to a manager, supervisor, and/or team lead (as shown on the organizational chart). New hires are informed of the unit's structure during the initial orientation. Job descriptions and the Annual Performance Form (PMF) provide a detailed description of the employee's assigned duties, responsibilities, and expectations.

Control Environment Guidance……

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4.2. Recruitment, Development and Retention of Individuals

Concept

Providing a positive work environment to help personnel improve their skills and reduce job turnover.

Management Responsibilities

Once management has recruited competent personnel they develop and retain them through methods such as:

- Training – develop competencies appropriate for key roles, reinforce standards of conduct, and tailor training based on the needs of the role.
- Mentoring – provide guidance on the personnel's performance, align the personnel's skills and expertise with the organization's objectives, and help personnel adapt to an evolving environment.
- Retaining – Create an environment to motivate and reinforce expected levels of performance and desired conduct, including training and credentialing.

Key Importance to Internal Control

With high turnover, it is more likely that personnel will not be aware of internal controls, and ultimately the internal control system may not operate as designed. Hopefully, creating a positive work environment will reduce job turnover.

Control Environment Wording Discussion……

Original Wording…..

Attribute	Narrative
4.2. Recruitment, Development, and Retention of Individuals	Agency adheres to all policies, guidelines, standards and laws as promulgated by State Personnel Board and O.C.G. A. Title 50.

Does the answer in the Narrative section seem ***detailed***?

Control Environment Wording Discussion……

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Original Wording…..

Attribute	Narrative
4.2. Recruitment, Development, and Retention of Individuals	Agency adheres to all policies, guidelines, standards and laws as promulgated by State Personnel Board and O.C.G. A. Title 50.

Certain details should be added, such as:

- What specifics are in that Code section(s)?
- Are there other processes/procedures used?
- Is the Code and related processes/procedures known and readily available to all staff?
- Etc.

Control Environment Wording Discussion……

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Suggested Wording Revision……

Attribute	Original Wording	Revised Narrative
4.2. Recruitment, Development, and Retention of Individuals	Agency adheres to all policies, guidelines, standards and laws as promulgated by State Personnel Board and O.C.G. A. Title 50.	Follows the State Personnel Board Rules general guidelines along with detailed job descriptions to identify and hire or promote qualified candidates. Complies with all applicable federal and state laws. Actively recruits qualified individuals through internal and external job announcements, by posting to Intranet, Team Georgia Careers, and other external professional recruiting websites

Control Environment Wording Discussion……

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Suggested Wording Revision (continued)……

Attribute	Original Wording	Revised Narrative
4.2. Recruitment, Development, and Retention of Individuals	Agency adheres to all policies, guidelines, standards and laws as promulgated by State Personnel Board and O.C.G. A. Title 50.	Encourage all employees to participate in training to enhance their job skills (and the employee's performance document requires a minimum number of training hours annually), to the extent possible. Although there is not a formal policy addressing employee retention, managers perform coaching and mentoring.

Control Environment Guidance……

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5.2. Consideration of Excessive Pressures

Concept

Pressures on personnel can come from various factors, such as:

- Management goals
- Cyclical demands of certain processes such as year-end financial statement preparation

Management Responsibilities

Management evaluates pressures and reduces excessive pressure by using various options such as rebalancing workloads or increasing resource levels. This should allow personnel to complete their responsibilities as designed in the internal control systems and in accordance with the standards of conduct.

Key Importance to Internal Control

If personnel are under pressure they may be tempted to "cut corners" or not bring problems forward to management.

Control Environment Wording Discussion……

Original Wording…..

Attribute	Narrative
5.2 Consideration of Excessive Pressures*	Agency adheres to all policies, guidelines, standards and laws as promulgated by State Personnel Board and O.C.G. A. Title 50. See agency org chart (attached)

Is the answer in the Narrative section ***applicable*** to the Attribute?

Control Environment Wording Discussion……

Suggested Wording Revision ……

Attribute	Original Wording	Revised Narrative
5.2 Consideration of Excessive Pressures	Agency adheres to all policies, guidelines, standards and laws as promulgated by State Personnel Board and O.C.G. A. Title 50. See agency org chart (attached)	Routine meetings are held with all Agency staff to remind of the importance of ethical behavior, and choosing to ensure the work is right (not cutting corners to meet a deadline).

Control Environment Wording Discussion……

Suggested Wording Revision (continued)……

Attribute	Original Wording	Revised Narrative
5.2 Consideration of Excessive Pressures	Agency adheres to all policies, guidelines, standards and laws as promulgated by State Personnel Board and O.C.G. A. Title 50. See agency org chart (attached)	Weekly staff meetings are held to discuss issues within teams relating to deadlines. Cross-training occurs so there is always a back-up, that could be used to meet a deadline. Interns or temporary help is used as needed, and appropriate.

Now Let's Talk about the RA/CA template

Common Themes

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Common items from first round of templates that could be improved:

- Risk justifications for inherent, likelihood and/or impact improperly consider control activities currently in place
- Items marked N/A with no further reasoning
- Risk justifications or control activities not applicable to specific risk example
- Control activities not detailed or significant controls not bolded
- Cells left blank with no further reasoning

But why is this so important?

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Issue	Why Important
Cells left blank with no further reasoning Items marked N/A with no further reasoning	No support to determine why unanswered or why N/A. So reviewer could (mis)interpret: • Item was overlooked • Item was not applicable • Someone was unsure of how to answer • Someone else was supposed to answer it

Ultimately you will be monitoring/testing controls in place so you want to capture all steps in a detailed manner – in order for a testing plan to be created from the details

But why is this so important?

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Issue	Why Important
Risk justifications or control activities not applicable to specific risk example Control activities not detailed or significant controls not bolded	This could lead to an inappropriate conclusion relating to what control activities to document. Which could lead to some controls missing when it is time to test/monitor the system.
Risk justifications for inherent, likelihood and/or impact ***IMPROPERLY*** consider control activities currently in place	This will cause control activity section to not list all valid controls in place. So when you go to monitor the internal control system, you would not be testing all controls.

More “Words”

RA/CA Template

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Risk Section of the RA/CA Template……

	6.2	7.1		7.2		7.2	
Specific Risk Examples	Risk Analysis - also see Risk Level Definitions Tab						
	Risk Tolerance	Inherent Risk	Inherent Risk Justification	Likelihood	Likelihood Justification	Impact	Impact Justification
C	D	E	F	G	H	I	J
Unrecorded Receivables and Payables: - appropriate research not done to include all needed items	de minimis						

Risk Assessment Guidance……

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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

Wording Discussion……

Original Wording…..

Specific Risk Example	Inherent Risk Justification
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	As a TeamWorks agency we run the prescribed queries that give us the items for AP and AR and aid in our monthly analysis

Does that wording seem like it is assessing risks ***before consideration of control activities***?

Wording Discussion……

Suggested Wording Revision……

Specific Risk Example	Original Wording	Revised Inherent Risk Justification
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	As a TeamWorks agency we run the prescribed queries that give us the items for AP and AR and aid in our monthly analysis	**High:** Open to judgment, newer form, and manual process **Medium:** Open to judgment, newer form, and manual process, but not likely to report or discover anything material **Low:** Not an option to be used

Wording Discussion……

Original Wording…..

Specific Risk Example	Likelihood Risk Justification
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	TeamWorks Agency

Does that wording seem like it is assessing risks ***before consideration of control activities,*** and ***applicable*** to the specific risk example?

Wording Discussion……

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Suggested Wording Revision……

Specific Risk Example	Original Wording	Revised Likelihood Risk Justification
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	TeamWorks Agency	**High:** Overlap among queries could result in duplication or missing some, and there are a lot of personnel involved in decentralized procurement/receiving **Medium:** Overlap among queries could result in duplication or missing some **Low:** Not an option to be used

Wording Discussion……

Original Wording…..

Specific Risk Example	Impact Risk Justification
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	TeamWorks Agency

Does that wording seem like it is assessing risks ***before consideration of control activities***, and ***applicable*** to the specific risk example?

Wording Discussion……

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Suggested Wording Revision……

Specific Risk Example	Original Wording	Revised Impact Risk Justification
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	TeamWorks Agency	**High:** each year's form had material amounts reported **Medium:** some of the years had material amounts reported on the form **Low:** not likely to have anything material based on history of amounts reported on the form

Control Activities Section of the RA/CA Template……

		Control Activities Section		
	7.3	10.1, 10.2, 10.3, 10.4, 11.2 and 12.1	7.1	
Specific Risk Examples	Risk Response		Risk Analysis - also see Risk Level Definitions Tab	
	Response	Your Control Activities detailed for EACH applicable specific risk examples (as need in accordance with the Risk Level Definitions tab) **bold significant controls**	Residual Risk	Residual Risk Justification
C	K	M	N	O
Unrecorded Receivables and Payables: - appropriate research not done to include all needed items				

Wording Discussion……

Original Wording…..

Specific Risk Example	Control Activities
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	N/A (due to low risk justifications)

Does the answer in the Control Activities section seem ***detailed***?

Wording Discussion……

Original Wording…..

Specific Risk Example	Control Activities
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	N/A (due to low risk justifications)

Certain details should be added, such as:

- What type of judgment is used in deciding what information to record on the form?
- Support for N/A, especially for this specific risk example - ensuring all items are included on the form
- Who completes the research (any review or discussion with others)
- Etc.

Wording Discussion……

Suggested Wording Revision……

Specific Risk Example	Original Wording	Revised Control Activities
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	N/A (due to low risk justifications)	1. Both the Revenue Manager and the Accounts Payable Manager prepare the form. The Revenue Manager has a bachelor's degree in accounting and 16 years of experience in accounting with 8 of those years in governmental accounting specifically.

Wording Discussion……

Suggested Wording Revision……

Specific Risk Example	Original Wording	Revised Control Activities
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	N/A (due to low risk justifications)	The Accounts Payable Manager has a bachelor's degree in accounting and has 15 years of governmental accounting experience. 2. Current version of the form is used from the current year's year-end reporting package.

Wording Discussion……

Suggested Wording Revision……

Specific Risk Example	Original Wording	Revised Control Activities
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	N/A (due to low risk justifications)	3. **Revenue and Accounts Payable Managers carefully follow instructions on the form including inquiry of appropriate personnel at the organization and at attached agencies.** 4. **Revenue and Accounts Payable Managers follow guidance from SAO and applicable revenue and expense policies.**

Wording Discussion……

Suggested Wording Revision……

Specific Risk Example	Original Wording	Revised Control Activities
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	N/A (due to low risk justifications)	5. **Revenue and Accounts Payable Managers analyze subsequent receipts/payments to determine if there was any timing issues at year-end. Managers discuss items with relevant personnel and obtain necessary data from them.**

Wording Discussion……

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Suggested Wording Revision……

Specific Risk Example	Original Wording	Revised Control Activities
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	N/A (due to low risk justifications)	6. **Accounts Payable Manager runs queries to determine the items that are likely to be reported in the incorrect period, and discusses any judgment-related items with the Accounting Director. Accounts Payable Manager will pull actual vouchers and discuss with relevant personnel or attached agencies.**

Wording Discussion……

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Suggested Wording Revision……

Specific Risk Example	Original Wording	Revised Control Activities
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	N/A (due to low risk justifications)	7. **Forms are reviewed by the Accounting Director who is a CPA and has 12 years of experience with governmental accounting. She ensures appropriate research is performed.**

Wording Discussion……

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

Specific Risk Example	Revised Control Activities	Possible Monitoring Activities
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	**Accounts Payable Manager runs queries to determine the items that are likely to be reported in the incorrect period, and discusses any judgment-related items with the Accounting Director. Accounts Payable Manager will pull actual vouchers and discuss with relevant personnel or attached agencies**	Discussion with Accounts Manager and review of documentation for queries used, judgment decisions made and review of vouchers. Testing information between query and form provided to SAO to verify they agree.

Wording Discussion……

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

Specific Risk Example	Revised Control Activities	Possible Monitoring Activities
Unrecorded Receivables and Payables form: appropriate research not done to include all needed items	7. **Forms are reviewed by the Accounting Director who is a CPA and has 12 years of experience with governmental accounting. She ensures appropriate research is performed.**	Discussion with Accounting Director of judgment discussed and decisions made. Verify Accounting Director did actually perform the review, and verify amounts do agree. If discrepancies were found, verify they were adequately eliminated or explained, and did not contain any unsupported adjustments ("plug numbers").

Future

SAO will:

- Request updated and/or new submissions
- Offer additional trainings

To be continued…….

Where to Find Information

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

www.gao.gov/greenbook

SAO's website:

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

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