Internal Controls and Segregation of Duties

Presented By: Katherine Heck, NHMA
Sponsored by: Melanson CPA's

AGENDA

What is the Purpose Internal Controls?

How are Internal Controls Developed?

What does it mean to “segregate duties”?

Learn why….

- This is a process: a means to an end, not the end itself.
- Accomplished by people, not merely policy, procedures and forms.
- Reasonable, but not absolute, assurance that assets and resources are safeguarded.

Internal Control Defined:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of the five private sector organizations listed on the left and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

Internal control, as defined by COSO in its Internal Control—Integrated Framework is "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."

Effective internal control is an integral part of an organization's governance system and ability to manage risk.

Source: http://www.coso.org/

What are Internal Controls?

Anything that helps safeguard assets.

Anything that helps make more effective and efficient use of those assets.

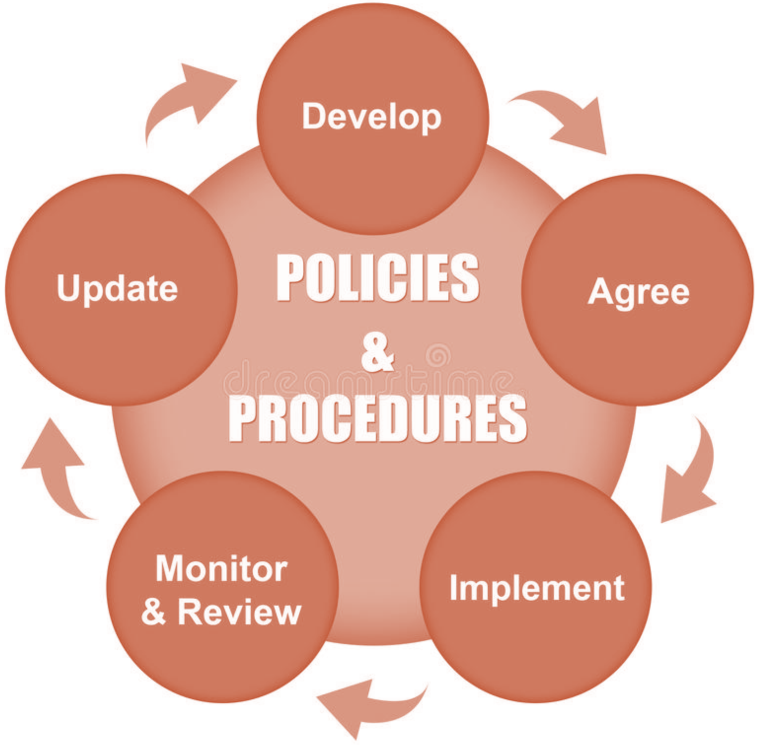
What are Internal Controls?

Internal control is a process.

Dynamic – ongoing and active

Iterative

Each process is defined and implemented by a set of <u>policies and procedures</u>- a series of ongoing actions and activities that occur throughout the organization.



Internal Controls Are Meant To:

1. Protect assets from waste and abuse.
2. Promote operational effectiveness and efficiency.
3. Ensure accurate, reliable records.
4. Encourage adherence to policies, rules, regulations and laws.

What Are Internal Controls?

A process: a means to an end, not the end itself.

Accomplished by people, not merely policy, procedures and forms.

Reasonable, but not absolute, assurance that assets and resources are safeguarded.

Importance of Internal Controls

Ensure	Ensure objectives are accomplished.
Reduce	Reduce fraud opportunities.
Prevent	Prevent loss of funds or other resources.
Establish	Establish standards of performance.
Assure	Assure compliance with laws, regulations, policies and procedures.
Preserve	Preserve integrity.
Eliminate	Eliminate adverse publicity.
Assure	Assure public confidence.

Types of Internal Controls:

- Preventive – Designed to stop an unwanted outcome before it happens.
  - Reading/understanding policies
  - Review/approve purchase orders
  - Passwords to stop unauthorized access
- Detective – Designed to find and correct errors that have already occurred.
  - Cash counts/reconciliation
  - Expenditures vs. budget
  - Reviewing payroll reports

Basic Objectives of Internal Control

Reporting Objectives

- Reporting objectives pertain to the preparation of reports for use by organizations and stakeholders and may relate to financial or non-financial reporting and to internal or external reporting.
- Internal reporting objectives are driven by internal requirements in response to a variety of potential needs such as the entity’s strategic directions, operating plans, and performance metrics at various levels.
- External reporting objectives are driven primarily by regulations and/or standards established by regulators and standard-setting bodies.
- External Financial Reporting Objectives
  - accessing capital markets and may be critical to being awarded contracts or in dealing with suppliers and vendors
- External Non-Financial Reporting Objectives
  - reporting requirements as set forth by regulations and standards for management reporting on the effectiveness of internal control over financial reporting are part of external non-financial reporting objectives
- Internal Financial and Non-Financial Reporting Objectives
  - information deemed necessary to manage the organization

Source: http://www.coso.org/

The Framework of Internal Controls

The Control Environment.

Risk Assessment.

Implementing Control Activities.

Information and Communication.

Monitoring.

The Control Environment

SET THE TONE AT THE TOP – INTERNAL CONTROLS ARE IMPORTANT!

INTEGRITY AND ETHICAL VALUES - MUST BE CLEARLY COMMUNICATED IN WRITING AND BY EXAMPLE.

COMMITMENT TO COMPETENCE – SOUND PERSONNEL POLICIES INCLUDING JOB DESCRIPTIONS, HIRING POLICIES, BACKGROUND CHECKS, JOB QUALIFICATIONS, PERFORMANCE EVALUATIONS.

AUTHORITY AND RESPONSIBILITY – CLEAR LINES OF AUTHORITY. IF EVERYONE IF RESPONSIBLE, THEN NO ONE IS RESPONSIBLE. PROVIDE ALL OF THE AUTHORITY NECESSARY AND ONLY THE AUTHORITY NECESSARY.

Control Activities

DIRECTIVE CONTROLS PROVIDE GUIDANCE TO EMPLOYEES TO HELP ACHIEVE THE DESIRED OBJECTIVES IN THE DEPARTMENT

PREVENTIVE CONTROLS ARE DESIGNED TO DETER THE OCCURRENCE OF AN UNDESIRABLE EVENT. THE DEVELOPMENT OF THESE CONTROLS INVOLVES PREDICTING POTENTIAL PROBLEMS BEFORE THEY OCCUR AND IMPLEMENTING PROCEDURES TO AVOID THEM.

DETECTIVE CONTROLS ARE DESIGNED TO IDENTIFY UNDESIRABLE EVENTS THAT DO OCCUR AND ALERT MANAGEMENT ABOUT WHAT HAS HAPPENED. THIS ENABLES MANAGEMENT TO TAKE CORRECTIVE ACTION PROMPTLY.

CORRECTIVE CONTROLS IDENTIFY FLAWS IN THE PROCESS AND DETERMINE ACTIONS TO BE TAKEN (EMPLOYEE TRAINING)

What is Risk?

When working toward its objectives, every organization faces a wide range of uncertain internal and external factors = Risks.

The effect of this uncertainty on the organization's objectives is called risk, which can be either positive, representing opportunity, or negative, representing a threat.

Risk should always be assessed in light of setting and achieving your organization's objectives. If there are no objectives, there is no risk.

This risk assessment process is both active and frequent.

What is the Objective Risk Management?

Reliable Financial Reporting

- Timeframes should be set for each report (daily/monthly/annually)
- Procedures established to ensure accuracy

Efficient Operations

- Eliminate redundant operations
- Utilize technology when available to reduce time (cost)

Legal Compliance

- Identify applicable laws and confirm compliance

Identify and Analyze Risks

- Identify risks at all levels of the entity
  - Ongoing and iterative process conducted to enhance ability to achieve objectives
  - What is the severity and likelihood of loss?
- Analyze internal and external factors
  - What is the frequency of risk assessment?
  - Takes into account operational priorities and cost
- Involve appropriate levels of Management
  - Responsibility and accountability for risk identification and analysis is the responsibility of management.
- Estimate the significance of each risk
  - What is the likelihood (probability)
  - Frequency
  - Duration of impact after the occurrence
- Determine how to respond to the risk
  - Once potential significant risks is assessed, management determines how to manage the risk

Risk Assessment

Changes effecting risk

Inherent Risk

- Unfamiliarity
- Complexity

Fraud Risk

- Opportunity

Risk Assessment Matrix

Probability \ Severity	Catastrophic - 4	Critical - 3	Marginal - 2	Negligible - 1
Frequent - 4	**High (16)**	**High (12)**	**Serious (8)**	**Medium (4)**
Probable - 3	**High (12)**	**Serious (9)**	**Serious (6)**	**Medium (3)**
Remote - 2	**Serious (8)**	**Serious (6)**	**Medium (4)**	**Low (2)**
Improbable - 1	**Medium (4)**	**Medium (3)**	**Low (2)**	**Low (1)**

Risk Assessment –
Consider Changes Effecting Risk:

- Changes in operations - economic, political.
- Changes in personnel.
- Changes in IT systems.
- Rapid growth.
- Change in structure, staff reductions.
- Change in programs, activities, services or vendors.

Risk Assessment – Consider Inherent Risk

Cash – the more easily an asset can be converted to personal use, the more likely it is to be stolen.

Complexity – the more that can go wrong, the more that is likely to go wrong.

Decentralization.

Unfamiliarity-An unresponsiveness to previously identified internal control weaknesses sends a negative message about management's attitude!

Risk Assessment – Consider Fraud Risks

Embezzlement/Conversion

- Cash, securities, broker/dealers, investment managers

Mechanical errors

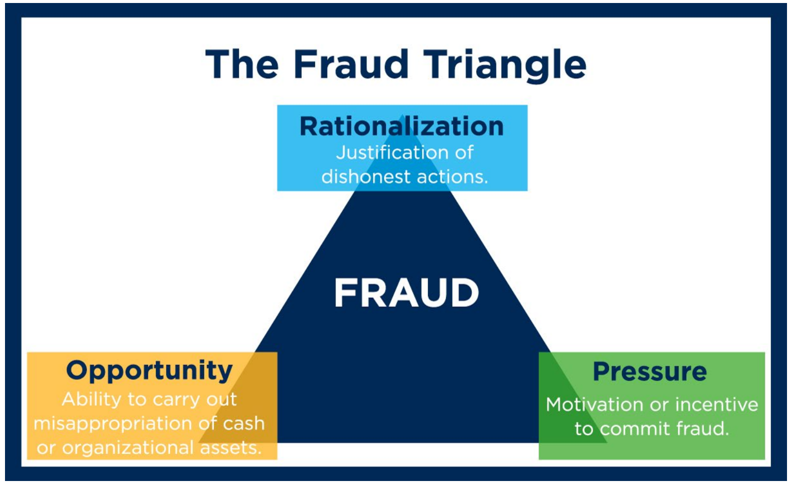
- Incorrect amounts
- Improper amortization of premiums and discounts Incorrect payees
- Wire transfer failures

Judgement Errors

- Inappropriate securities selection Poor market timing (?)
- Selection of an insolvent dealer or depository

Cover Up

- Fraud
- Delaying or avoiding recognition of losses



Financial Stress – personal, business, illness.

Addictions – gambling, drugs, alcohol.

Disaffection - an employee believes they are being, or have been, mistreated.

Past Problems.

Red Flags

Employee Red Flags

- Employee lifestyle or behavioral change Significant personal debt and credit problems Refusal to take vacation or sick leave
- Lack of segregation of duties in vulnerable areas.

Management Red Flags

- Reluctance to provide information to auditors
- Management decisions are dominated by an individual or small group Weak internal control environment
- Excessive number of checking accounts or frequent changes in banking accounts Excessive number of year-end transactions
- High employee turnover rate
- Service contracts result in no products

- **Cash Receipts and Disbursements**
- **Records and Reports**
- **Purchasing**
- **Fixed Assets**

Sample Risk Assessment

Change Risk	Inherent Risk	Fraud Risk

Sample Risk Assessment: EXAMPLE Transfer Station Operation

Change Risk ⇓	Inherent Risk ⇓	Fraud Risk ⇓
Rapid Growth	Cash	Financial Stress
Staff Turnover	Decentralized	Past Personnel Issues

Sample Risk Assessment EXAMPLE: Fuel Charges

Change Risk	Inherent Risk	Fraud Risk
New Vendor	Decentralized	Price of Fuel

Questions To Ask Regarding Risk Assessment

Where is the potential risk?

What is the likelihood of an unwanted occurrence and what would be the impact?

What compensating controls can be implemented?

Does the cost of the controls exceed their benefit?

Information and Communication

To be useful, information must be:

- ✓Appropriate
- ✓Accurate
- ✓Timely
- ✓Current
- ✓Accessible

Information and Communication

- Up, down, lateral and around.
- Accounting policies and procedures manual:
  - Clearly outlines specific authority and responsibility
  - Serves as a reference tool
  - Lessens the threat to continuity due to employee turnover

Monitoring

Periodic

- Separate evaluation of internal controls:
  - Independent Auditor – material weakness, reportable condition, non-compliance, significant deficiency
  - Insurance Carrier (Property/Liability) - internal control assessment

Ongoing

- Management and Leadership analysis.

Monitoring

Investigate and resolve discrepancies.

Maintain professional skepticism – explanations should be supported by some type of evidence.

Promptly follow-up on all indications of potential errors and irregularities.

Accountability

Organization holds individuals accountable for their internal control responsibilities

Accountability is interconnected with leadership and is the result of the tone established by the governing body and senior management.

- Enforces Accountability through structures, authorities and responsibilities
- Establishes Performance Measures, Incentives and Rewards
- Evaluates Performance Measures, Incentives and Rewards
  - Align incentives and rewards with fulfillment of internal control responsibilities
  - Clear objectives, defined implications, meaningful metrics
- Consider Excessive Pressures – evaluate the pressures associated with achieving objectives
  - Do not set unrealistic performance targets
- Evaluate performance of internal control responsibilities
  - Adherence to standards of conduct
  - Expected levels of competence

Who Is Responsible?

EVERYONE plays some role in effecting internal controls.

- Governing Body – BOS, Council, School Board, Commissioners, Aldermen
- Manager, Superintendent
- Department Heads, Principals
- Supervisory Personnel
- Each Individual Employee
- Budget Committee

All personnel should be responsible to communicate:

- Problems in operations
- Deviations from established standards or expectations
- Violations of policy, law or regulations

Where to Start:
Internal Control Self-Assessment

A basic checklist from the checklist published by the Vermont State Auditors Office:

2022 VT checklist:
https://diovermont.org/wp-content/uploads/2022/02/Internal-Control-Checklist-Fillable-.pdf

Answers on the right indicate a potential internal control weakness that may need attention.

Where to Start:
Where Are the Risks?

Cash, decentralization, no segregation of duties, change, potential for fraud.

Where does the money come from, where does it go?

Where to Start: Address the Identified Weakness

- Authorization controls
- Record controls
- Security controls
- Segregate duties
- Personnel policies
- Reconciliation
- Verification
- Analytic review

Government Finance Officers Association Statement on Fraud Prevention

Fear of detection and punishment is a product of effective internal controls. Weak internal controls both permit and invite irregularities by reducing or removing that fear.

The single most important step that can be taken to prevent fraud is for management to establish and maintain an effective internal control structure!

Implementing Control Activities

Authorizations – in writing, in advance, by specific individual(s), documentation (audit trail).

Properly designed records – sequential numbering, automatic duplicates, info for multiple purposes, avoid unnecessary info.

Security of assets and records – controlled access, physical security, keep confidential records separate from non-confidential records, computer backup, disaster recovery.

Implementing Control Activities

Periodic reconciliations – i.e. bank reconciliations, accounting record reconciliations (i.e.tax collector to treasurer), reasonableness review.

Periodic verification – i.e. physical inventory, payroll payout.

Analytical review – what's expected vs. what's reported, data entry controls, edit checks, exception reporting, financial vs. non-financial data.

Sample Control Activities: Transfer Station Operation

Change Risk **⇓ 4**	**Inherent Risk** **⇓ 6**	**Fraud Risk** **⇓ 6**
Rapid Growth *Reports	Cash *Remit Daily *Receipts	Financial Stress *HR Resources
Staff Turnover *Supervision *Segregation	Decentralized *Reports	Past Personnel Issues *Clear Expect. *Evaluation

Risk Assessment Matrix

Probability	Severity: Catastrophic - 4	Critical - 3	Marginal - 2	Negligible - 1
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SAMPLE Control Activities: Fuel Charges

Change Risk	Inherent Risk	Fraud Risk
New Vendor *Reference Check	Decentralized *Monitor Delivery	Price of Fuel *Monitor Delivery

Implementing Control Activities

- Policies (what should be done) and procedures (how it should be done) designed to ensure that the objectives (protect assets, effectiveness/efficiency, accurate records, and compliance) are achieved.

POLICY

The formal guidance needed to coordinate and execute activity throughout the district. When effectively deployed, policy statements help focus attention and resources on high priority issues - aligning and merging efforts to achieve the district's vision. Policy provides the operational framework within which the district functions.

- Widespread application
- Changes less frequently
- Usually expressed in broad terms
- States "what" and/or "why"
- Answers operational issues

PROCEDURE

The operational processes required to implement district policy. Operating practices can be formal or informal, specific to a department or building or applicable across the entire district. If policy is "what" the district does operationally, then its procedures are "how" it intends to carry out those operating policy expressions.

- Narrow application
- Prone to change
- Often stated in detail
- States "how", "when", and/or "who"
- Describes process

Policies reflect management or board statements of what should be done to effect internal control.

Such statements should be in writing	Explicitly stated in management communications	Implied through management actions and decisions.

Procedures consist of actions that implement a policy – actions should be described in writing, and this written documentation typically results in the formation of a policy.

These are actions that permeate an entity's activities and that are inherent in the way management operates the entity.

Control Activities through Policies and Procedures

Organization deploys control activities that establishes the procedures

- Procedures to support the deployment of Management Directives
- Responsibility and Accountability for Executing policies and procedures
- Performs controls activities in a timely manner
- Takes corrective action
- Performs using Competent personnel
- Reassesses Policies and Procedures

Most Common Internal Control Deficiencies

Lack of written financial policies and procedures.

Inadequate cash and receipts procedures.

Inadequate reconciliations.

Lack of personnel policies.

Lack of personnel evaluations.

Limitations of Internal Controls

- Judgement – decisions made by people under pressure and time constraints, based upon information on hand.
- Breakdowns – lack of understanding, simply making mistakes.
- Management Override – high level management override prescribed policies and procedures.
- Collusion – 2 or more individuals circumventing controls.
- Cost vs. Benefit – risk and effect must be weighed against the cost of establishing controls.

Balancing Risks and Controls

Reasonable Assurances:

Excessive Risks – loss of assets, loss of funding, poor decisions, non-compliance, increased regulation, public scandal.

Cost-Benefit

Excessive Controls – increased bureaucracy, complexity, time, non-value-added activities, reduced productivity

Common Methods of Control Activities

Authorization –designed to provide reasonable assurance that all transactions are within the limits set by policy or that exceptions to policy have been granted by the appropriate officials.

Review and approval – designed to provide reasonable assurance that transactions have been reviewed for accuracy and completeness by appropriate personnel.

Verification – Control activities in this category include a variety of computer and manual controls designed to provide reasonable assurance that all accounting information has been correctly captured.

Reconciliation –Provide reasonable assurance of the accuracy of financial records through the periodic comparison of source documents to data recorded in accounting information systems.

Physical security over assets – Designed to provide reasonable assurance that assets are safeguarded and protected from loss or damage due to accident, natural disaster, negligence or intentional acts of fraud, theft or abuse.

Source: GFOA

Internal Control and Financial Reporting

- Institutionalize good financial management practices.
- Formal policies usually outlive their creators, and, thus, promote stability and continuity. They also prevent the need to re-invent responses to recurring issues.
- Clarify and crystallize strategic intent for financial management.
- Financial policies define a shared understanding of how the organization will develop its financial practices and manage its resources to provide the best value to the community.
- Define boundaries. Financial policies define limits on the actions staff may take.
- The policy framework provides the boundaries within which staff can innovate in order to realize the organization's strategic intent.
- Support good bond ratings and thereby reduce the cost of borrowing.
- Promote long-term and strategic thinking.
- The strategic intent articulated by many financial policies necessarily demands a long-term perspective from the organization.
- Manage risks to financial condition.
- A key component of governance accountability is not to incur excessive risk in the pursuit of public goals.
- Financial policies identify important risks to financial condition.
- Comply with established public management best practices.

Internal Control In the Treasury Function

Internal controls constitute specific policies and procedures (the controls) designed to achieve the objectives of:

- Establish formal written procedures
- Identifying risks
- Creating a separation of duties
- Safeguard physical and financial assets
- Efficiency of operations
- Reliability of financial reporting
- Compliance with legal requirements
- Minimize opportunities for fraud, employee error

Internal Controls for Investment Activity

Investment Authorization Authorized decision makers

- Guidelines on permitted investments (investment policy)
  Flexible to respond to changes in the markets
- Restrictive to minimize the risk of fraud or loss

Investment Selection Only permitted investments

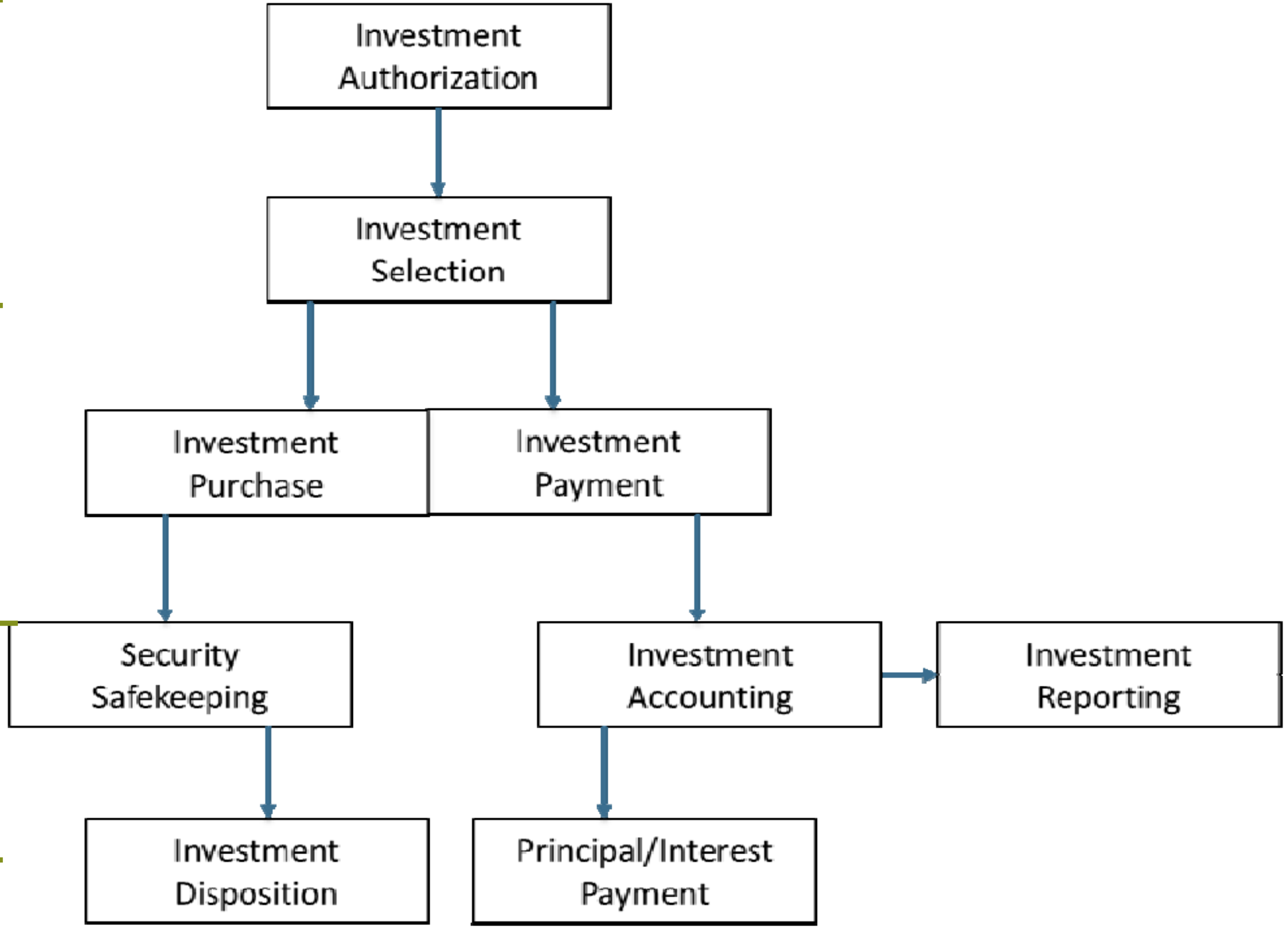
- Risk reward and market conditions
- Factors to consider: Yield, Maturity, Credit worthiness
  Permitted does not equal appropriate

Investment Purchase and Payment Clearly, well documented transactions

- Trade ticket, custody statement, investment report

Security Safekeeping Establishing and maintaining ownership

- Reconcile custody statements and other internal/external reports



Source: Investing Public Funds second edition

Internal Controls as They Relate To Cash Management

Internal controls specifically ensure:

- The safety of all funds
- The timeliness of recording the receipt of all funds
- That assignment of duties complies with separation of duties guidelines
- That reconciliations are completed and reviewed on a monthly schedule
- A sound audit trail and adequate documentation are created

Common Methods of Control Activities

- Segregation of duties – Reduce the risk of error and fraud by requiring that more than one person is involved in completing a particular fiscal process.

- Education, training and coaching – Reduce the risk of error and inefficiency in operations by ensuring that personnel have the proper education and training to perform their duties effectively. Education and training programs should be periodically reviewed and updated to conform to any changes in the agency environment or fiscal processing procedures.

- Performance planning and evaluation –Establish key performance indicators for the agency that may be used to identify unexpected results or unusual trends in data which could indicate situations that require further investigation and/or corrective actions. Evaluations may be done at multiple levels within the agency, as appropriate: the agency as a whole; major initiatives; specific functions; or specific activities.

- Performance reviews may focus on compliance, financial or operational issues. For example, financial reviews should be made of actual performance versus budgets, forecasts and performance in prior periods.

Source: http://www.coso.org/

Segregation of Duties

Although control activity procedures are not intended to increase staffing levels, acceptable procedures are to be established and followed which may require changes in existing workloads and/or additional staff position(s).

A periodic thorough internal review of control activities may identify policies and procedures that are no longer required.

Small to medium size operations may not be able to institute internal control procedures on the same level as larger, more complex agencies.

In cases where staffing limitations may prohibit or restrict the appropriate segregation of duties, management must either have more active oversight of operations or utilize personnel from other units to the extent possible as compensating controls.

Segregation of Duties

Separation of duties protects the organization and the individual by ensuring that no one person has the ability to control all of the steps involved in handling and accounting for money received by the local government.

- Custody
- Record Keeping
- Authorization
- Reconciliation

The ideal is that any one person performs no more than 2 functions; three people are needed for the four functions.

Implementing Control Activities

Segregate

- Segregate incompatible duties – duties where someone is able to both commit an irregularity and then conceal it:
  - Authorize a transaction
  - Record the transaction
  - Maintain custody of the asset resulting from the transaction

Provide

- Provide compensating controls when segregation not possible – vacation, periodic rotation of duties, have someone else do the job and see if there is any noticeable change.

Appoint

- Appoint a Deputy
- Cross train an alternate

Segregation of Duties

	Receipt of Goods/Custody of Assets	Record Keeping/Document Prep	Authorization/ Approval	Reconciliation Prepared By	Reconciliation, Independent Approver
Receipt of Goods/Custody of Assets	Same Function	Incompatible unless a compensating control is built	Incompatible	Incompatible unless a compensating control is built	Incompatible
Record Keeping/Document Prep	Incompatible unless a compensating control is built	Same Function	Incompatible	Incompatible unless a compensating control is built	Incompatible
Authorization/ Approval	Incompatible	Incompatible	Same Function	Incompatible	Compatible
Reconciliation Prepared By	Incompatible unless a compensating control is built	Incompatible unless a compensating control is built	Incompatible	Same Function	Incompatible
Reconciliation, Independent Approver	Incompatible	Incompatible	Compatible	Incompatible	Same Function

When Segregation Is Not Possible

If one person performs two or more of the functions:

- Risk exists that presents the opportunity for something to go wrong
- A compensating control is needed to reduce the risk
- The compensating control might be an extra layer of review

Examples of compensating controls may include:

- A manager/dept head may perform a high level of review of detailed transaction reports
- A manager may periodically sample transactions and request supporting documentation to ensure the transactions are complete, appropriate, and accurate.
- Someone from an another area may perform an external review of a reconciliation.
  - For instance, two departments within a municipality may share responsibility to review each others reconciliations.
- Some local governments have a centralized collections and/or financial services department

Reconciliation & Balancing

What should you reconcile ?

Who should reconcile?

All accounts and transactions-**credit card transactions, accounts payable, accounts receivable, payroll, fixed assets, Due to/Due From accounts, special revenue, and other areas against the general ledger, or balance sheet**

- Reconciliation should be performed by a person with no cash handling responsibilities
- The reconciliation must be dated and signed or initialed
- The reconciliation should be reviewed by an independent party

Commitment to Competence

Commitment to attract, develop and retain competent individuals aligned to the objectives

- ✓ Establish Policies and Practices
  - ✓ Reflect expectations of competence to support objectives
    - ✓ Define accountability and performance
- ✓ Evaluates Competence and Addresses Shortcomings
  - ✓ Governing Body and Management evaluate competence internally and externally
  - ✓ Requires relevant skills and expertise
- ✓ Attract, Develop and Retain Individuals
  - ✓ Training, mentoring, evaluate, retain
- ✓ Plans and Prepares for succession
  - ✓ Contingency plans for responsibilities for internal controls
  - ✓ Governing Body is responsible, management identifies and assesses

THANK YOU!

? Questions

Katherine Heck
Government Finance Advisor
New Hampshire Municipal Association

603.224.7447
kheck@nhmunicipal.org

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PRACTICE POINTER: Custody

- Having access to or control over any physical asset
- Custodians:
  - Collect and handle payments
  - Prepare deposits
  - Have access to safes, lock boxes, & file cabinets where funds are kept

PRACTICE POINTER: Record Keeping

- Record keeping is the process of creating and maintaining official records
- Record keeping may occur manually or through an automated data system

- Record Keeping Examples:
  - Customer receipts
  - Deposit slips
  - Credit card receipts
  - Cash register reports
  - EFT (electronic funds) payment documents
  - Balancing and reconciliation reports
  - Record Retention

PRACTICE POINTER: Paper/Electronic Documentation

Source: Investing Public Funds second edition

Documentation is essential for an effective internal controls program in the investment function

Every transaction should be documented with a confirmation from the broker, the custodian and should include specific detail including

- Date of transaction
- Buy/Sell
- Broker/Dealer
- Competitive Bid quotes when appropriate
- Account number name
- Wire transfer instructions (limited internal control)
- Security Description
- Investment yield, price
- Dollar amount
- Maturity of investment
- Delivery instructions

PRACTICE POINTER

Wire transfers typically involve large sums of money

Policies should be in place to minimize risk of loss

- Listing of accounts
- Custody functions
- Authorized personnel and dollar limits
- Allowable types of communications (email, verbal, fax)
- Requirement that the instructions are on letterhead
- Confirmation and notification procedures
- Bank liability

Wire Transfer Agreements

Source: Investing Public Funds second edition

PRACTICE POINTER: Authorization

Authorization is the process of granting formal approval to perform a specific function

For example, someone must be authorized in order to perform one of the following functions:

- Verify cash collections
- Review daily balancing reports
- Approve discounts, voids, or refunds

PRACTICE POINTER: Authorization

- The person who originally created a transaction should not be:
  - The one who makes a correction
  - The one who creates a void
  - The one who creates/approves a refund

- The best practice is to have a supervisor/department head/manager, etc., take these actions

PRACTICE POINTER: Custody – System Passwords

- Every person must have their own password
- Passwords must never be shared
- Don’t write your passwords down
- If you need to leave the work area, sign off your password; log back on when you return
- Passwords should be changed periodically
- Passwords should be inactivated whenever a custodian vacates the position

PRACTICE POINTER-Develop General Controls over Technology

Organization selects and develops control activities over technology that supports the achievement of objectives

- Determines dependency on Technology in processes
  - How much of the process is automated
  - Deployed to ensure automation works properly
- Establishes relevant technology infrastructure
  - Designed to help ensure completeness, accuracy and availability of the process
  - Networking, computing resources
  - Can be internal or external
- Establishes relevant security management
  - Restrict to authorized users
  - Which users can execute transactions
- Establishes relevant technology development and maintenance of process controls
  - Provides a structure for system design
  - Documentation, approvals, checkpoints