


MOVING FORWARD WITH SOUND INTERNAL CONTROLS
-FINANCE, BUDGET, & COUNTY MAYOR-
2018



UT County Technical Assistance Service
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PURPOSE OF THIS CLASS

Expand on initial internal controls training back in 2016

County Mayor, Highway Department, and Finance/Budget Director office specific issues

Focus of this class is Risk Management

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T.C.A § 9-18-102(A)

An amendment to state law requiring all county governments to establish and maintain internal controls which provide *reasonable* assurance that...

1. Obligations and costs are in compliance with applicable law;
2. Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
3. Revenues and expenditures are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.


Law took effect June 30, 2016!
You should have documented internal controls by now. **UT** County Technical Assistance Service
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WHAT HAS HAPPENED SINCE THE DEADLINE...

Majority of county offices met deadline

Auditors, in general, worked with county officials that at least made an attempt.

Audit findings dealing with internal control deficiencies dropped




WHAT TO EXPECT THIS YEAR

Audit will be selecting/reviewing the written assessments for a few offices in each county


Auditors will be actually verifying performance of the controls that are documented

May see an increase in internal control findings in some offices.



| Components | Principles |
|-----------------------------|--|
| Control Environment | 1. Demonstrate Commitment to Integrity and Ethical Values 2. Exercise Oversight Responsibility 3. Establish Structure, Responsibility, and Authority 4. Demonstrate Commitment to Competence 5. Enforce Accountability |
| Risk Assessment | 6. Define Objectives and Risk Tolerances 7. Identify, Analyze, and Respond to Risk 8. Assess Fraud Risk 9. Analyze and Respond to Change |
| Control Activities | 10. Design Control Activities 11. Design Activities for the Information System 12. Implement Control Activities |
| Information & Communication | 13. Use Quality Information 14. Communicate Internally 15. Communicate Externally |
| Monitoring Activities | 16. Perform Monitoring Activities 17. Remediate Deficiencies |

COMPONENTS & PRINCIPLES OF INTERNAL CONTROLS



AUDIT FINDINGS 2017

- Deficiencies
 - computer backup
 - budget operations
 - time records and leave accruals
 - issuance of purchase orders
- Material adjustments to the financial statements
- Competitive bids were not solicited for highway equipment
- Failure to reconcile fuel reports

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WHY ANOTHER CLASS?

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WHAT SHOULD I DO TO ENSURE COMPLIANCE?

- Review your written internal control procedures/assessment and ask yourself...
 1. Is what is written actually being accurate to my understanding of my offices current operations?
 2. Have I implemented new technology in my office?
 3. Have I changed some financial duties of my staff?

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ONCE YOU HAVE REVIEWED YOUR WRITTEN PROCEDURES/POLICY...

- 1 Physically compare what is written with what is happening in your office
- 2 When you finish, are you comfortable with what you saw?
- 3 Is staff training needed?

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WHAT YOU ARE LOOKING FOR IN YOUR PHYSICAL ASSESSMENT...

- Identify specific risks
- Consider risk factors
- Know who is the fraud risk owner

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ONCE YOU ARE COMFORTABLE

Be sure to update your written procedures for any changes you deem needed.


Remember "tone at the top" is the best internal control that you can have.

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REDUCING RISKS TO TOLERABLE LEVELS...

- Identify factors that may increase risk
 - Little or no oversight over the use of credit cards
 - Computer passwords taped onto computers
 - Not soliciting bids over the purchasing threshold
- Determine the significance of risk and likelihood of fraud, waste, abuse and inaccurate financial reporting (think reducing risk vs. cost of control).
- Develop specific actions to reduce the risk to an acceptable level.


A Risk Matrix is a very useful tool when you cannot eliminate risk.



RISK MATRIX


Defines the various levels of **risk** as the product of the harm probability categories and harm severity categories.

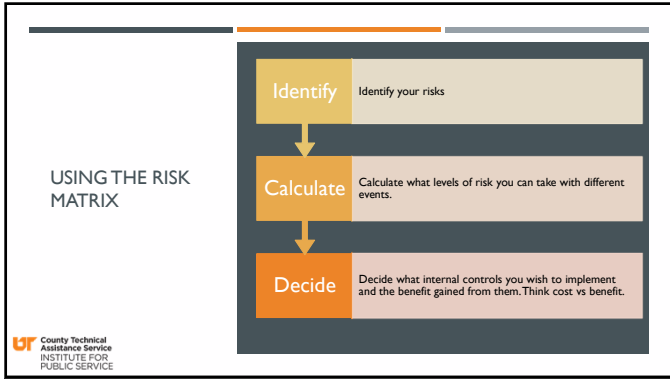
Is a simple mechanism to increase visibility of risks and **assist** management decision making.



A SAMPLE RISK MATRIX

| Risk Matrix | | Impact | | | |
|-------------|----------|------------|--------|---------|-----------|
| | | Negligible | Minor | Major | Extensive |
| Likelihood | Certain | High | High | Extreme | Extreme |
| | Likely | Medium | High | High | Extreme |
| | Possible | Low | Medium | High | Extreme |
| | Unlikely | Low | Low | Medium | Extreme |
| | Rare | Low | Low | Medium | High |





INTERNAL CONTROL REPORTS

- Potential Internal Control Issues To Investigate
- Solution to Previously Identified Internal Control Issues

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INTERNAL CONTROL DEFICIENCIES – AUDIT FINDINGS

- Grant reimbursement requests were not made in a timely manner
- Money withheld from contractor was not deposited into an escrow account
- Interfund loan was not authorized according to state statute
- Office failed to make a principal payment on a capital outlay note

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INTERNAL CONTROL DEFICIENCIES – AUDIT FINDINGS

- Competitive bids were not solicited
- Payroll liability accounts were not reconciled
- Property sold at public auction was not properly declared surplus

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INTERNAL CONTROL RELATED TO CONFLICT OF INTEREST

- Highway department violated conflict of interest statute by purchasing from a business owned by a county commissioner




HOW TO REVIEW A COMPLETED RECONCILIATION TO THE TRUSTEE


- Verify receipts and disbursements
- Did the trustee record revenue in the correct account?
- Canceled checks, who were they made out to?
- Ensure the cash amount in funds are correct.
- Are there "plug numbers"?

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OTHER PHYSICAL CONTROLS...




- Security cameras in office
- Who has access to the courthouse / highway department?
- Who has access to office equipment / highway equipment?
- Are blank checks accessible?
- Who has access to fuel pumps and/or fuel cards?

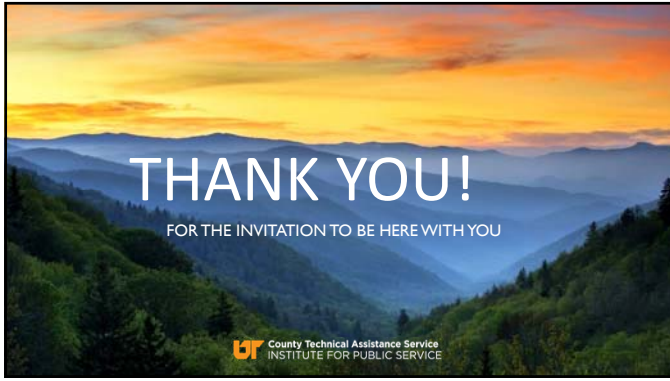


BRAINSTORMING EXERCISE



- Required that independent auditors do this each year per SAS...
- **NO ONE** knows your office better than **YOU** and your management team!
- A management brainstorm session is essential to a good risk assessment/sound internal controls





THANK YOU!
FOR THE INVITATION TO BE HERE WITH YOU

