

Internal Controls

“They Are Everyone’s Business”

Valdosta State University
Office of Internal Audits
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Presentation Overview

- Understand Internal Controls
- Identify Control Weaknesses
- Fraud
- Best Practices

Question#1

Internal control is a process designed to provide reasonable assurance regarding the achievement of which objective?

- A. Effectiveness and efficiency of operations
- B. Reliability of financial reporting
- C. Compliance with applicable laws and regulations
- D. All of the above

Internal Controls



What are Internal Controls?

Systems and processes designed to provide management with reasonable but not absolute assurance that the goals and objectives it believes important to the entity will be met.

Internal controls should be a part of HOW you do your job, not just “added” to what you already do.

What's the Purpose of Internal Controls?

- Achieve goals
- Carry out management directives
- Reduce surprises
- Increase reliability of information
- Promote efficiency and effectiveness
- Safeguard assets
- Comply with rules and regulations

Question#2

Who is responsible for internal controls?

- A. Upper management
- B. Accountants and Auditors
- C. Supervisors
- D. All employees

Responsibility and Accountability

- Deans, department heads, chairpersons and directors are primarily responsible for identifying the financial and compliance risks and internal controls for their operations.
- Individual employees have responsibility for evaluating, establishing and/or improving, and monitoring internal controls for their areas of responsibility and accountability.

WHY Are Controls Important?

Management viewpoint

- Transactions are recorded (complete)
- Profitability and reporting accuracy
- Assets are secure and existent
- Compliance with laws and regulations

WHY Are Controls Important?

Worker's standpoint

- Reduce errors
- Protection and evidence of no wrongdoing
- Simplify

Controlling Opportunity

Prevent Control Monitor Deter



What do internal controls look like?

Question#3

Control activities can be defined as:

- A. A means to an end
- B. Authorized procedures
- C. The particular category in which a control is placed
- D. The actions of people to help ensure that management directives necessary to address risks are carried out

What can IC protect against?

- Conflicts of Interest
 - Purchasing Schemes
 - Turnaround Sales
- Bribery & Incentives
 - Kickbacks
- Billing Schemes
 - Shell Companies
 - Non Accomplice Vendors/ Persona Purchases
- Expense Reimbursements
 - Fictitious Expenses
 - Multiple Reimbursements

Why Should I Care?

- Protect yourself
- Protect your assets
- Help you do your job
- Help deter fraud
- Management directive

What If We Don't Have Controls

Control deficiency:

The design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Control Deficiencies Can Result In:

- Breakins (doors not locked; access from outside not controlled)
- ID theft
- Wrong prisoners released
- Assets misappropriated (stolen)
- Laws broken
- Misstated financial statements

Example 1 of Control Deficiencies

- GA Tech professor shaking down students
- <http://www.ajc.com/news/news/breaking-news/georgiatech-professor-accused-taking-r-20k-students/nd734/>

Example 2 of Control Deficiencies

- Three employees under investigation by the FBI for suspected fraud of \$1.5 million at Georgia Tech
- http://www.wsbtv.com/news/news/local/audit_uncoverssuspectedfraud_georgiar_tech/nbz5K/

Evaluating Your Work Environment and Identifying Deficiencies

COSQ Model

How does COSO apply to you?

Operations
Financial Reporting
Compliance

Good Internal Controls Help to Ensure:

Effective and Efficient Operations: For example:

- A university has multi million dollar endowment that is invested in a wide range of traditional and nontraditional investment vehicles to maximize its investment return and spread risk.
- An institution is beginning an aggressive capital campaign and will be assessing its resource requirements (e.g. people, systems) to effectively manage it.
- An institution is implementing a new payroll system and wants to ensure that the implementation will be within budget and that the resulting system will meet its desired business objectives.

In each of these examples good internal controls give the stakeholders (i.e., benefactors, donors, students, parents, IT users) more faith in the institution's ability to manage its operations effectively and

GoodInternal ControlsHelp to

Good Internal Controls Help to Ensure:

Compliance with Laws and Regulations For example:

- A college files its Form 990 with the IRS on a timely basis, and the tax return evidences that the institution complies with IRS rules and regulations.
- A university undergoes a self r

COSO Model: Environment

- Good control environment
 - Competent people
 - Understand responsibilities
 - Knowledgeable, mindful, committed
 - Policies, procedures, ethics

COSO Model: Risk assessment

- Categories
 - Error
 - Omission
 - Delay
 - Fraud
- Balance between the impact of the event or action, and the cost of implementing a control

Question#4

Your department has been struggling to implement the monitoring component of the COSO framework. Which of the following is NOT correct in how the department can implement the monitoring component?

- A. Monitoring can be an ongoing process.
- B. Monitoring can be conducted as a separate evaluation.
- C. An adequate internal audit staff can reduce external audit costs.
- D. The independent auditor can serve as part of the control environment.

COSO Model: Control Activities

1. Preventive controls

- Written policies and procedures
 - Employees know what is expected of them
 - Reference material
 - Training material
 - Consistency & continuity
- Segregation of duties
- Physical control of assets
- Transactions are authorized and approved
- Supporting documentation

COSO Model: Activities

2. Detective

- Inventory counts
- Reconciliations
 - Correct
 - Routine
 - Timely
 - Reviewed by a person outside of the process
- Monitoring that policies are being followed

COSO Model: Communication

- Who does your department communicate to?
- Who provides information to your department?
- Consider:
 - Faculty
 - Students
 - Customers
 - Suppliers
 - Regulators
 - Other departments

COSO Model: Monitoring

- What do you do to make sure that everyone is doing their job well and that all these controls are working properly?
- You can have the best internal controls in place but if you never check to see that the controls are operating right chances are they are NOT.

Consequences of Poor Monitoring

- Loss of reputation/Front page test
- Unable to meet financial obligations
- Sanctions for non-compliance
- Additional rules and regulations

How does COSO apply to you?

Monitoring
Information and Communication
Control Activities
Risk Assessment
Control Environment

COSQ Model

Test your Observation
[https://youtu.be/8 hapS2SPz4](https://youtu.be/8hapS2SPz4)

Correcting Control Deficiencies

When business controls contain weaknesses we must choose between the following alternatives:

- Increase supervision and monitoring
- Institute additional or compensating controls and/or
- Accept the inherent risks with the control weakness (assuming management approval)

What If We Don't Have Controls

We open the door for FRAUD:

Opportunity facilitates the ability to commit fraud

- Weak internal control environment
- Poor management oversight
- Misuse of position or authority

Fraud Triangle: Opportunity

This is the individual who sets the

tone

Which in turn provides the

opportunity

for fraud to occur

Fraud Triangle: Opportunity

Fraud

Most pressure comes from a significant financial need or problem

- Family situation
- Medical bills
- Expensive tastes
- Addiction problem
- Greed

Fraud Triangle: Motivation

Rationalization

FraudTriangle:Rationalization

Typical Fraudster?

- Male
- 36 to 45 years old
- Has not been previously charged or convicted for a fraud related offense
- Senior management position
- University degree
- Living beyond one's means (financial difficulties)
- Employed by

What about trust?

Situations That May Contribute to Fraudulent Activities

- Ineffective internal controls
- Insufficient supervision
- High personnel turnover
- Low employee morale

BESTPRACTICES

Value your Signature

- Know what you are signing
- Ask if it is a wise use of taxpayer or student funds?
- You are responsible for what you havfu9004t.?3StsS8046 Tw [(

Protect your Password

- Don't share your password with anybody.
- Don't let anyone watch you enter your password.
- Use a strong password that you don't have to write down.

Protect your Password

Student Admits To Hacking Into University's
Computer System To Change Grades

Develop Written Procedures

- Resource for current employees
- Training tool for new employees
- Promote consistency and efficiencies
- Manage expectations— everyone knows what is expected of them.

Segregation of Duties

- No one should control any should

Financial and Other Reports

- Review budget reports
- Review reports showing who accessed computer files
- P-cards
- Accounts Payable
- Accounts Receivable
- Payroll

PCards

GATech

<https://www.youtube.com/watch?v=Buuen1pwJdo>

Cash

- Deposit all cash and checks at the Bursary daily
- Keep cash locked up
- Dual controls
- Accountability: Sign-off each time cash changes hands

Example:

- Cash (contd):
 - What are some controls:
 - Segregate receiving, depositing, recording and reconciling
 - Regular reconciliations
 - Accountability, including sign-offs and

Example:

- Review your cash transactions:
 - What are the risks:
 - Misappropriations
 - Diversion of funds
 - Posting to wrong client account

We've Always Done It That Way

- Review

Approvals

- Document:
- What?
- Why?

Prevent & Detect Fraud

- Trust your instincts
- Be open to concerns from your staff
- Insist policies and procedures are followed:
 - Prevent fraud
 - Protect employees from accusation of fraud
 - Protect employees from temptation
- Not everything that looks suspicious is a fraud, but every fraud looks suspicious. If it looks suspicious, follow up on it.

Question#5

- In a university setting what area is most likely to have weak internal controls where fraud could occur?
 - A. Accounting
 - B. Operations
 - C. Information Technology
 - D. Human Resources

DONOTCIRCUMVENTINTERNALCONTROLS

Accountability

For yourself

For others

For doing the right thing

Whereis

Accountability

UGA– Financial Wrongdoing

<http://www.wsbtv.com/news/local/channel2/investigationexposesfinancialwrongdoi/26909704>

Resources

- VSU Internal Audit – Heidi Cox 245 2491
- VSU Legal Office – Tony Thomas 333 5351
- VSU Hotline 877 516 6470
- USGOIAC – 404 962 6034

Comments and Questions?