

A night cityscape with light trails and a large blue abstract graphic. The background shows a city street at night with light trails from cars and buildings. A large, stylized blue graphic, resembling a ribbon or a stylized letter 'M', is overlaid on the image. The graphic has a textured, slightly grainy appearance and is set against a dark blue background that also contains some faint, glowing light trails.

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Internal Controls: Best Practices in Design and Monitoring

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Introductions



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Objectives for this session

- Understand the characteristics and importance of internal controls
- Discuss how to design and modify appropriate internal controls for your district with focus on identification of “key controls”
- Share best practices in internal controls



What are internal controls?

- Internal controls are processes or safeguards that help mitigate risks to your district
 - These risks could include operational, financial, and compliance
- Internal controls can take any number of forms:
 - Account reconciliations
 - Independent reviews of activities and balances
 - Authorization of transactions
 - Budget to actual analyses/review of operating metrics
 - Segregation of duties
 - Physical safeguards
 - IT general controls



Internal Control – a continual process





Framework of Internal Control

- **Risk Assessment**
 - Identifies risk to achievement of District goals and analyzes how risks should be managed
 - Considers potential for fraud
- **Control Environment**
 - The organization demonstrates a commitment to integrity and ethical values
 - Incorporate accountability, as well as tolerance for mistakes



Framework of Internal Control

- **Control Activities**
 - Organization develops activities that contribute to mitigation of risks
 - Deploy activities through policies to establish expectations and put into practice
- **Information & Communication**
 - Internal communication regarding objectives and responsibilities
 - External communication regarding matters affecting internal control
- **Monitoring Activities**
 - Perform ongoing evaluation to determine if internal controls are present and functioning
 - Communication to the Board regarding deficiencies and planned corrections



Key characteristics of internal controls

- Preventative vs. Detective
- Automated vs. Manual
- Recurring vs. Periodic
- Effective vs. Partially Effective vs. Ineffective
- Key Controls



Examples of Key Controls

Cash

- Segregation over receipts and cash handling
- Automated banking procedures and cash transfers
- Bank reconciliations
- Dual authorizations

Expenses/Payables

- Authorization and initiation of payments
- Controls over appropriateness and classification of expenditures
- Independent review and oversight
- Budget vs. actual analysis

Revenue/Receivables

- Detailed account reconciliations
- Recalculation of revenue generated
- Comparison to external information (SASR, Municipality Tax Info)
- Budget vs. actual analysis

HR & Payroll

- Processes for hiring, training, evaluating, monitoring, and terminating employees
- Segregation of payroll functions – including payroll inputs and authorization/approvals
- Procedures over benefits changes

Accounting & Reporting

- Segregation over bookkeeping and accounting procedures
- Consistent and detailed financial reporting
- Independent verification of information included in reports

IT and Data

- Document management processes and controls
- Routine assessment of IT environment and security
- Implementation of firewalls and controls over workstations/data access
- Disaster recovery



Importance of Internal Control and Mitigating Risk

- Effective internal controls can benefit your District in the following areas:
 - Mitigate risk of fraud
 - Mitigate risk of errors
 - Safeguards assets and information
 - Enhance reliability of financial information
 - Improve accuracy of financial information



Risk Management Process and Design

- Important considerations when designing your control structure:
 - What is the most effective way to reduce an identified risk?
 - Is this also the most efficient way?
 - Is the risk identified significant enough to warrant mitigating?
 - Will the controls implemented reduce the risk to a tolerable level?
 - Do the costs of the implementing the control outweigh the benefits?
 - Do the individuals included in the process have the appropriate skills and knowledge to ensure the control is effective?
 - What procedures and safeguards will be relied upon as key controls?



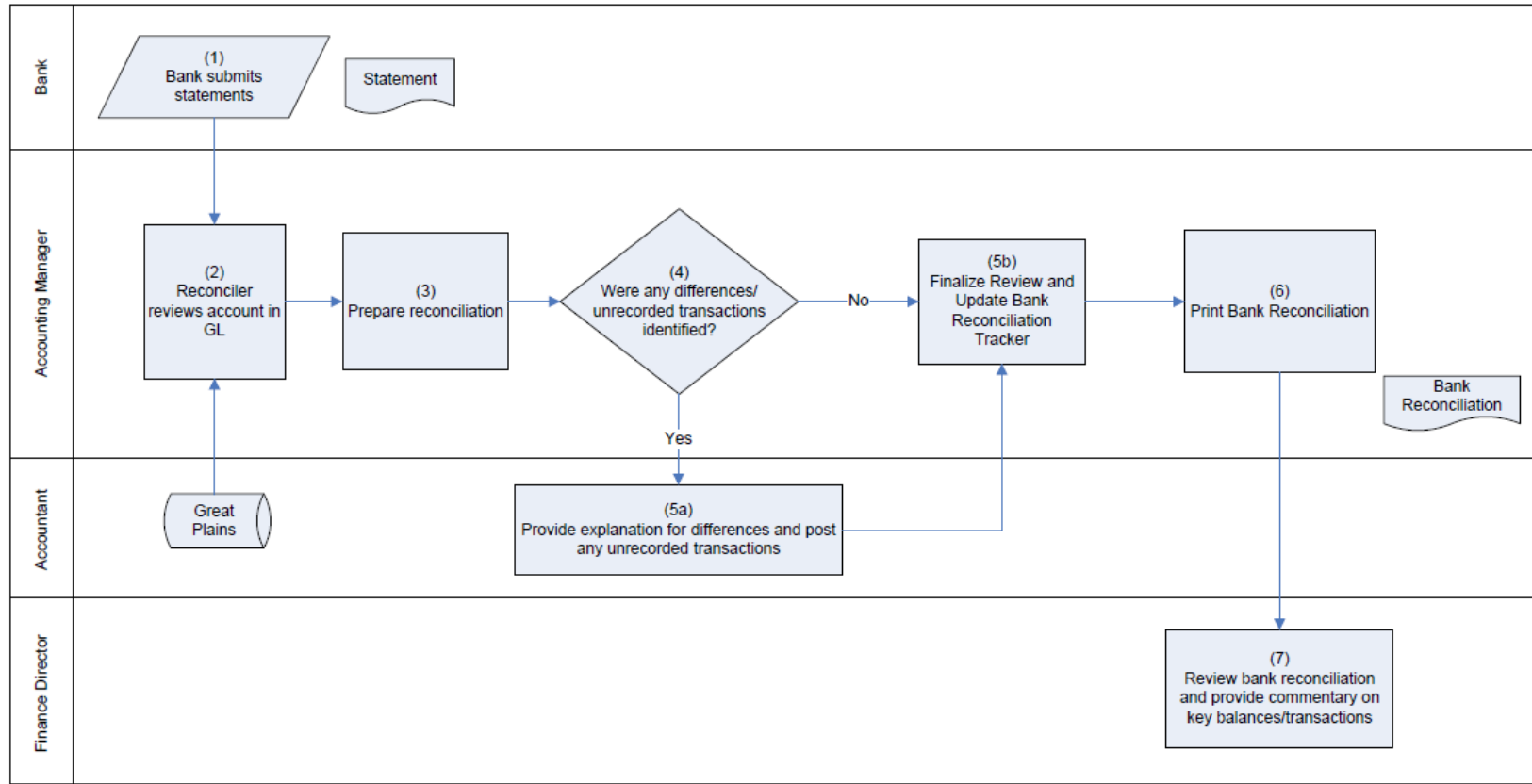
Best Practices in Internal Control

- Key success factors when implementing controls
 - Encourage buy-in throughout the organization
 - Tone from the top
 - Desire to create a risk-aware and ethical culture
 - Collaborative approach in design stage aids in creating a common language and goal
 - Develop reporting and monitoring tools
 - Goal should be to easily understand and measure progress
 - Useful to the team without creating extra burden
 - Design the “right” control instead of “more” controls
 - Continually reassess your risks and the controls you have mitigating them



Best Practices in Internal Control

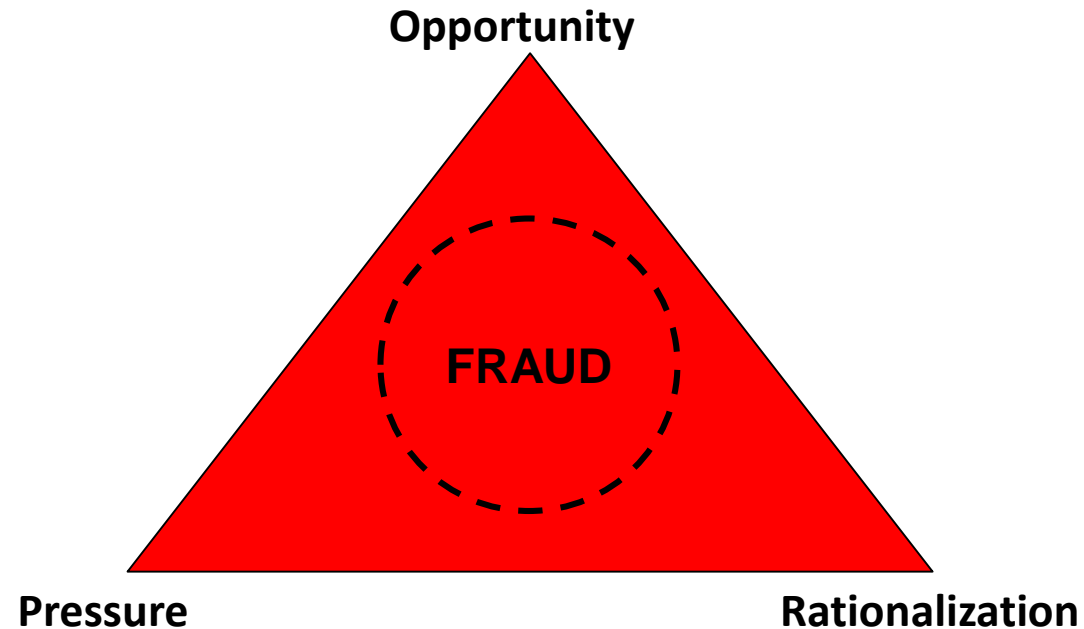
- Document your processes so everyone knows the role they play





Best Practices in Internal Control

- Consult the “Fraud Triangle” when evaluating your risk environment and the controls you use to mitigate it





Best Practices

Now it's your turn to share!

In groups – spend 5-7 minutes discussing the following:

- In your current role, name 1 risk that you have identified or something that 'keeps you up at night'
 - Do your peers have suggestions on how they have successfully addressed that?
 - Did any common themes arise?



Thank you!!

