An Internal Control Overview

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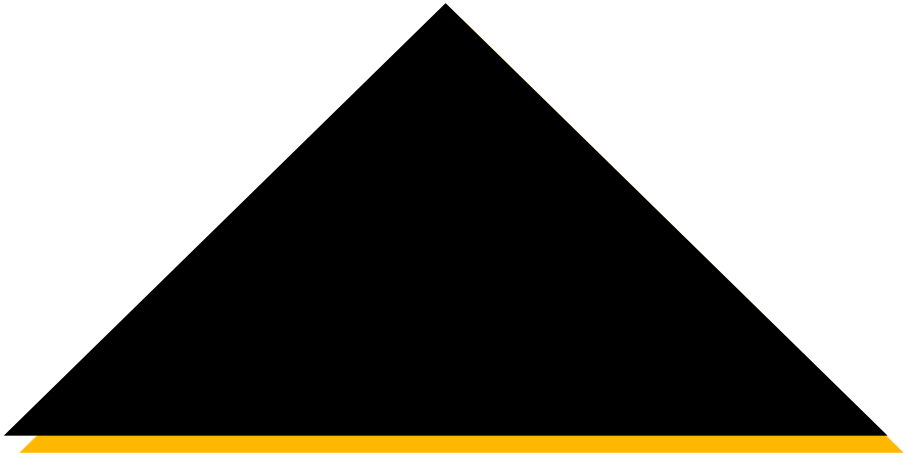
What I hope to Accomplish

- Understanding fraud
- Discuss Internal Controls
- Overview of DOE Accountability Regs
- Results of Previous Audits

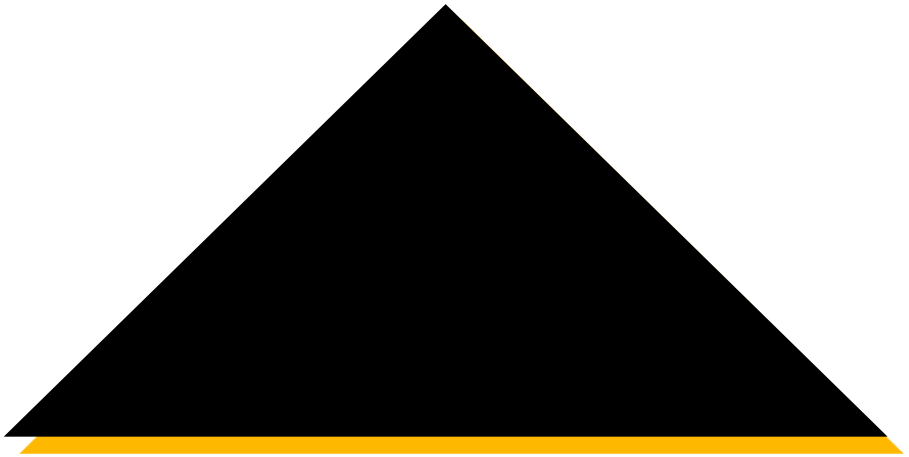
Evaluating Antifraud Processes and Controls

- Need to understand how and why fraud & abuse happens



The Fraud Triangle

Motive



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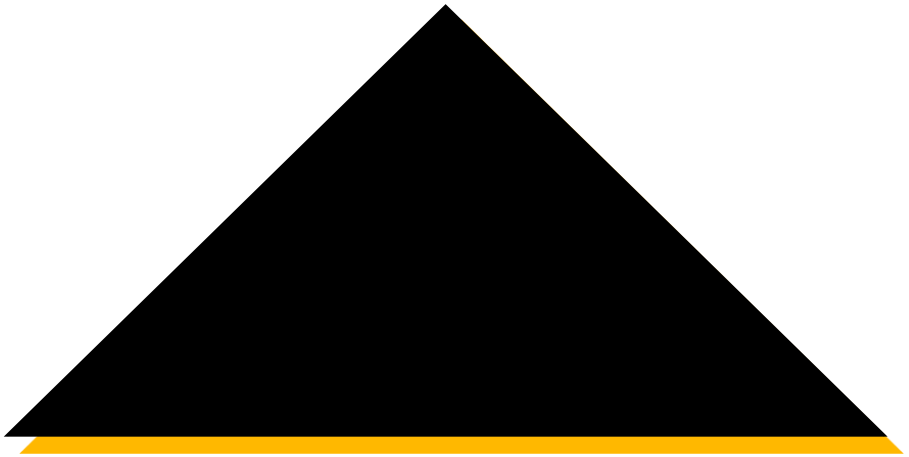
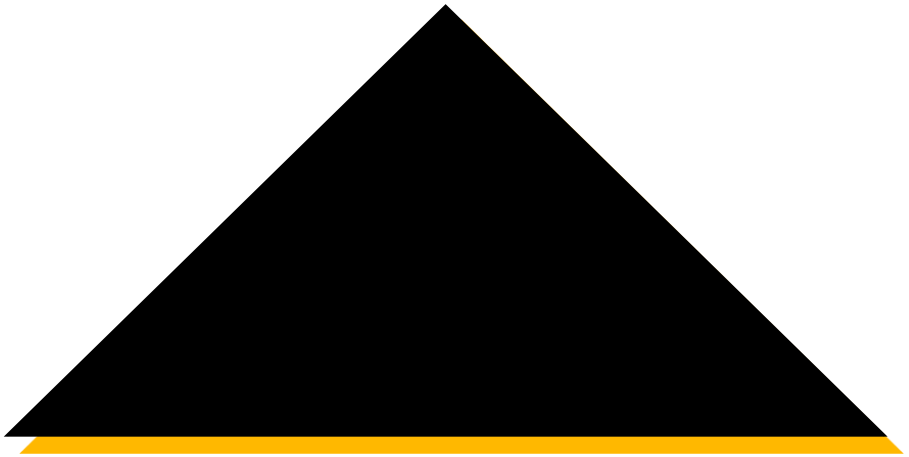


Opportunity

The Fraud Triangle

Motive



Opportunity

Rationalization

What is Internal Control?

- Internal control consists of the policies and procedures that an administration has put in place to help ensure that the organization meets its goals and objectives.
- Controls relate to financial and operational policies as well as the compliance with state requirements.

What are The Objectives of Internal Control?

- Safeguarding assets
- Operational efficiency
- Compliance with applicable laws and regulations
- Ensuring the accuracy and reliability of financial reporting

Why is Internal Control Important?

- Internal control protects you by catching small mistakes before they become big problems.
- Internal control protects the district by removing opportunities for innocent mistakes or intentional fraud to cause harm.

The Components of Internal Control

Internal Control is composed of a number of interrelated components that work together to achieve the district's goals.

- The control environment
- Risk Assessment
- Control Activities
- Information & Communication
- Monitoring

The Control Environment

- The control environment is the core of any system of internal control.
- It sets the tone for the entire organization.

The Control Environment

- The control environment is made up of
  - The ethics and integrity of the administration and employees of the district.
  - The commitment to competence at all levels.
  - The administration's operating style and attitude toward controls.
  - Human resource policies (and practices).
  - Organizational structure

Risk Assessment

- Risk assessment is the evaluation to determine those areas and functions within the district and each department that have risk of errors, noncompliance, and fraud.
- Controls may then be put in place to help mitigate the risks identified during risk assessment

Control Activities

- Control activities consist of the specific policies and procedures that are put in place to mitigate the risk of error, noncompliance, and fraud. There are several categories of control activities
- Physical control of assets
- Segregation of duties
- Authorization of activities
- Adequate documentation
- Independent performance review

Physical Control of Assets

- Limit Access
  - Supplies
  - Building
  - Computer Programs
  - Cash

- Periodic Inventory Unannounced

Authorization of Activities

- Transaction Cycles
  - Payroll
  - Purchasing
  - Cash Receipts
  - Non Budgeted Funds
  - Financial Reporting

Segregation of Duties

- Responsibility for operations should be separate from the related record-keeping.
- Responsibility for the custody of assets (as well as authorization of transactions related to assets) should be kept separate from the accounting for those assets.

Adequate Documentation

- Documents should be as simple as possible so that they are clearly understood by all users.
- Documents should be prenumbered and the use of the documents should be periodically verified to ensure accountability.

Independent Performance Review

- The independent performance review is designed to ensure that the other controls are properly designed and working properly.
- Changes in operations may make some controls unnecessary and may cause the need for new controls (Example: Controls over computer access).

Information and Communication

- Adequate information and communication systems help the district personnel obtain and process information that is needed to carry on and control the operations of the district

Monitoring

- Monitoring is the review of controls by the district administration to verify that the controls are achieving the desired results.
- Once again, as the operations of the district change, the related controls must be changed to ensure that the goals of the district are met.

Limitations on Internal Control

- The effectiveness of any system of internal control depends on the competence of the people who use it.
- Internal control can be weakened by the management override of control activities.
- Controls can be defeated by the collusion of two or more people.

Department of Education Accountability Regulations

- Income Tax
- Annual Audit
- Internal Controls (NJAC 6A:23A-4 thru 6)

Internal Controls

- Segregation of Duties
  - Human Resources/Payroll
  - Purchasing/Accounts Payable
- Standard Operating Procedures (Dec 09)
  - Accounting, Cash Management, Budgeting, Position Control, Purchasing, Facilities, Security, Emergency Preparedness, Risk Management, Transportation, Food Service, Technology Systems, Information Management, and Office Supplies

Internal Controls (Con't)

- Financial and Human Resource Management Systems
  - Enterprise Resource Planning (ERP) System
  - Shared Service Opportunities
  - Access Control Requirements
- Personnel Tracking and Accounting
  - Automated Position Control Roster
- Facilities Maintenance and Repair
  - Automated Work Order System

Internal Controls (Con't)

- Purchase Order Changes
- Vehicle Tracking and Maintenance
- Vehicle Assignment
- Board Travel
- School Travel

Performance Audit Results

- General
  - Policies and Procedures
  - Adequate Approvals
  - Physical Security of Sensitive Items
- IT
  - Disaster Recovery
  - Password Protection
  - Technology Plan Development

Performance Audit Results Continued

- Human Resources
  - Segregation of Duties
  - Maintenance of Employee Files
  - Employment/Credential Verification
- Payroll
  - Overtime Documentation
  - Position Control Roster
  - Salary Change Documentation
  - Approval Documentation

Performance Audit Results Continued

- Purchasing
  - Segregation of Duties
  - Approvals (Reqs, PO's Inv)
  - Documents Missing
  - Open PO's
- **I can keep going forever…….**

Let's Sum it UP!

- Internal Control is Managements Responsibility
- State Regulations Mandate a Good System of Control
- You Can Either Address the Issues Now or in a Public Forum
- Common Sense **Must** Prevail

QUESTIONS