

An Internal Control Overview

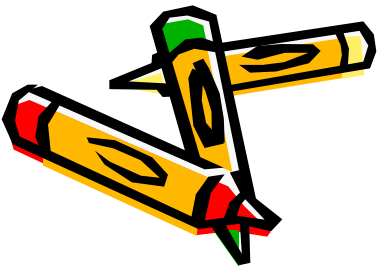
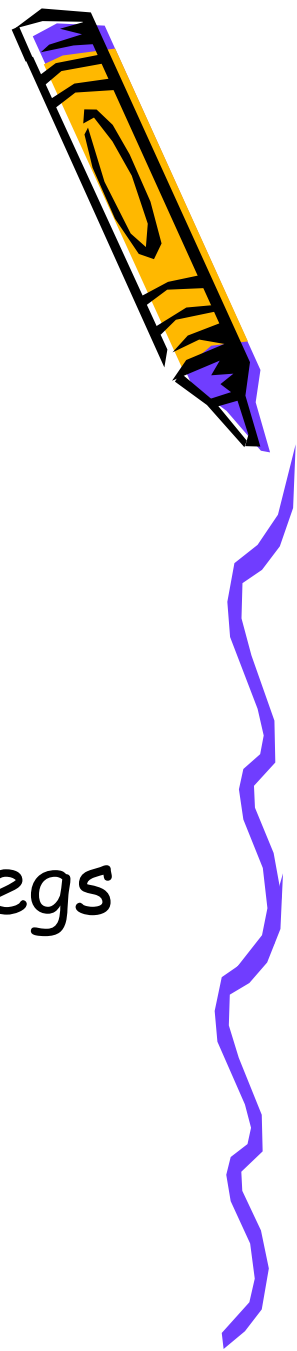
Richard L. Fair, CPA CGFM

Rutgers University



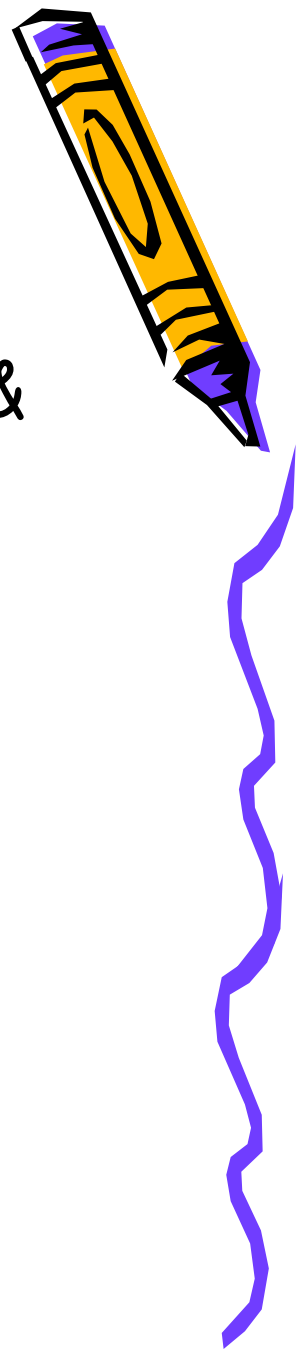
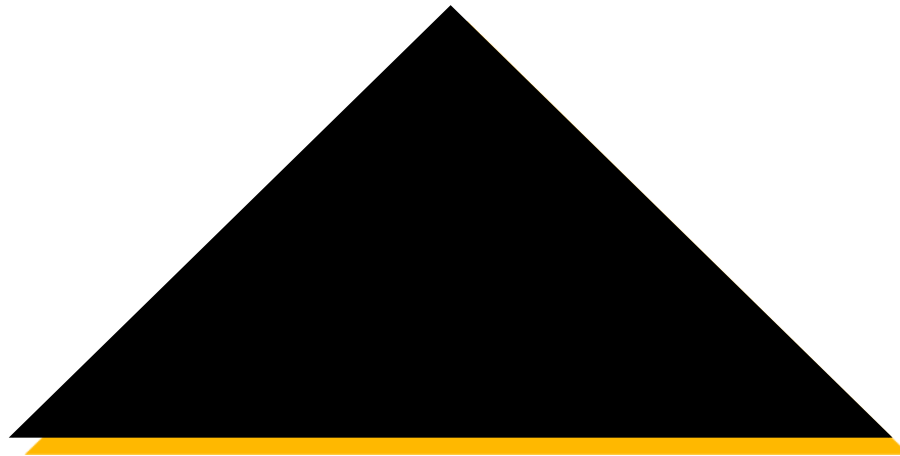
What I hope to Accomplish

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



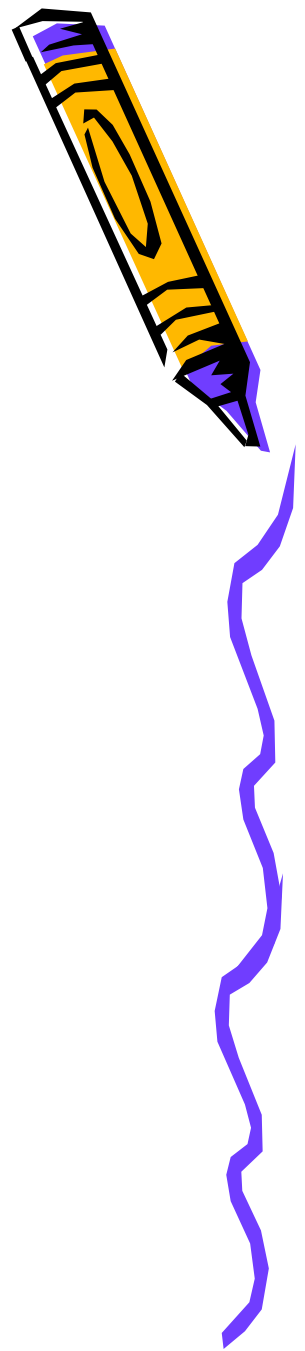
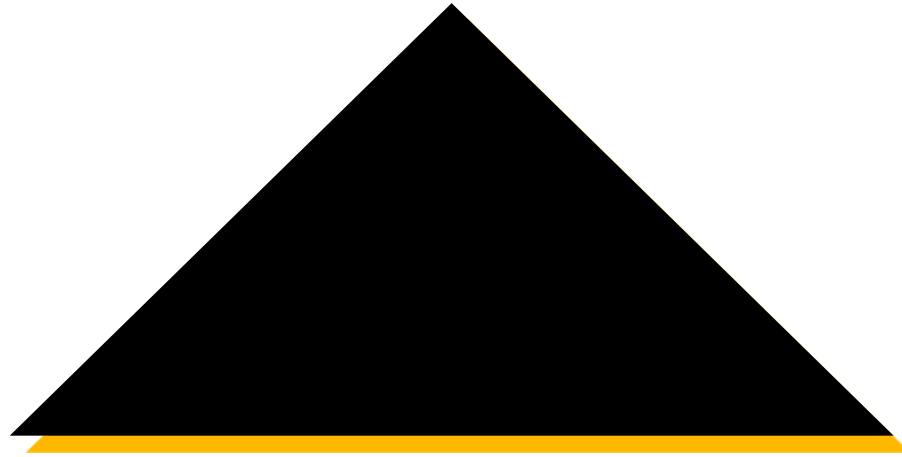
Evaluating Antifraud Processes and Controls

- Need to understand how and why fraud & abuse happens



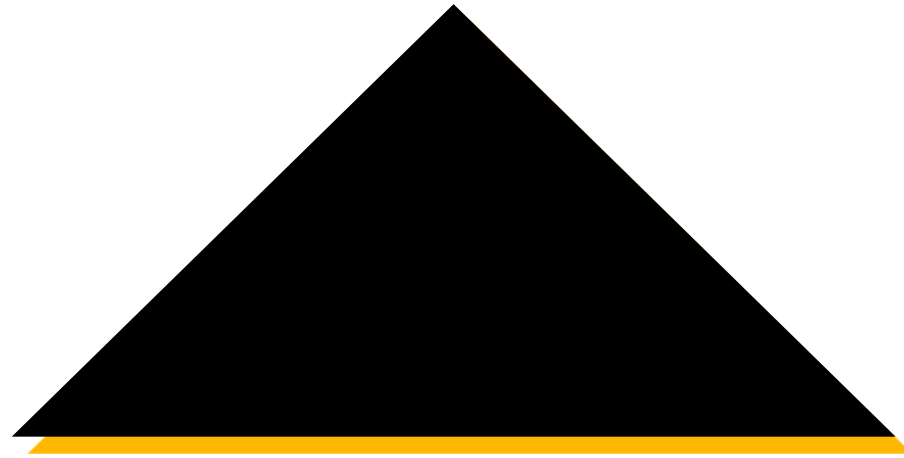
The Fraud Triangle

Motive

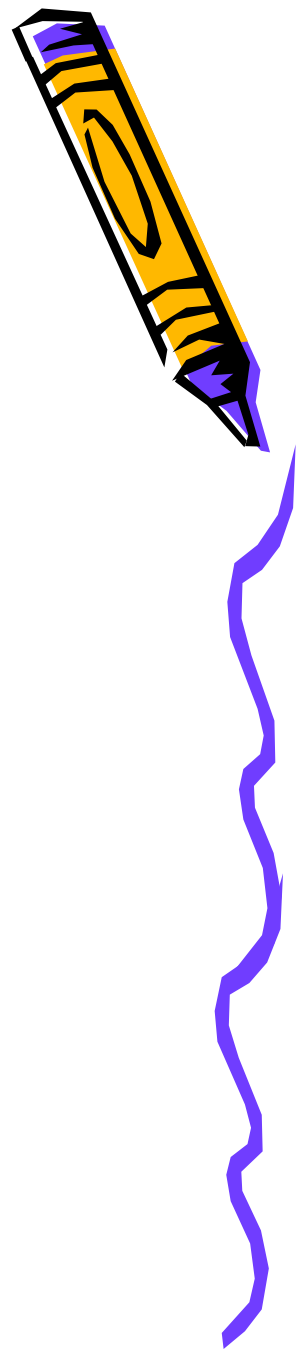


The Fraud Triangle

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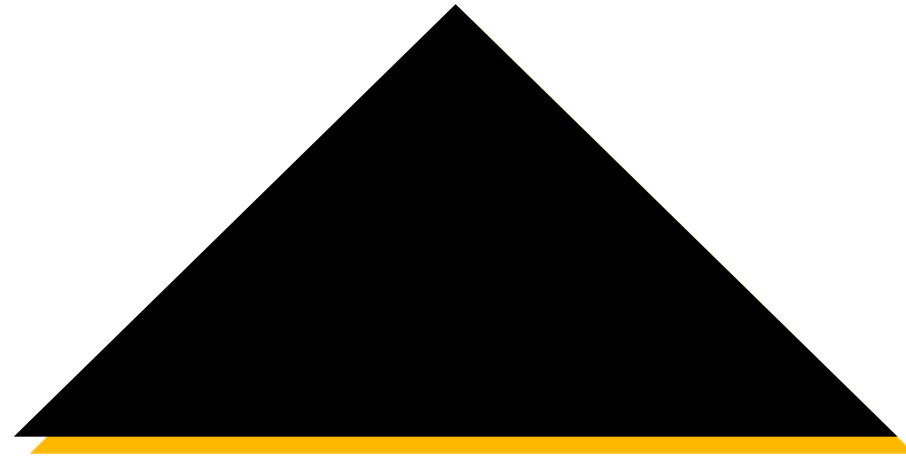


Opportunity



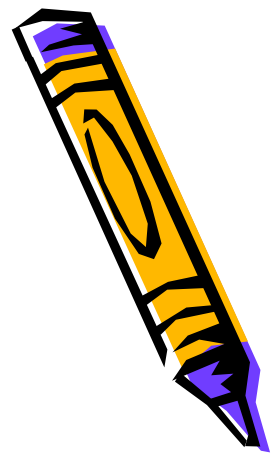
The Fraud Triangle

Motive

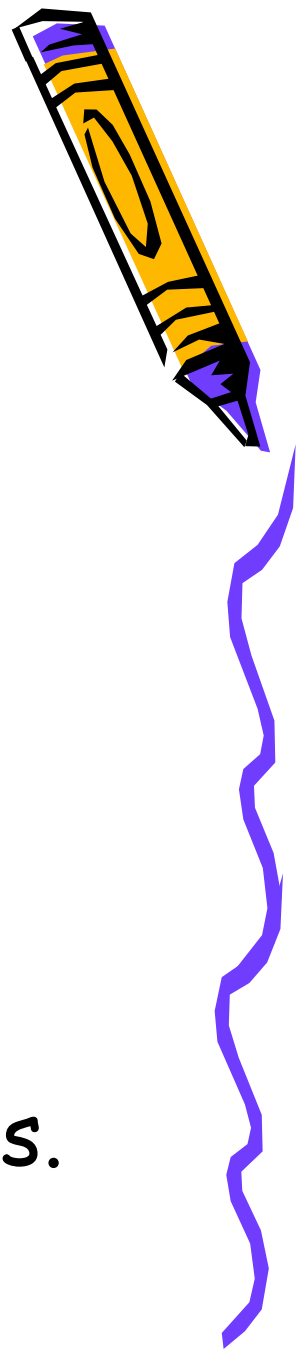


Opportunity

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.



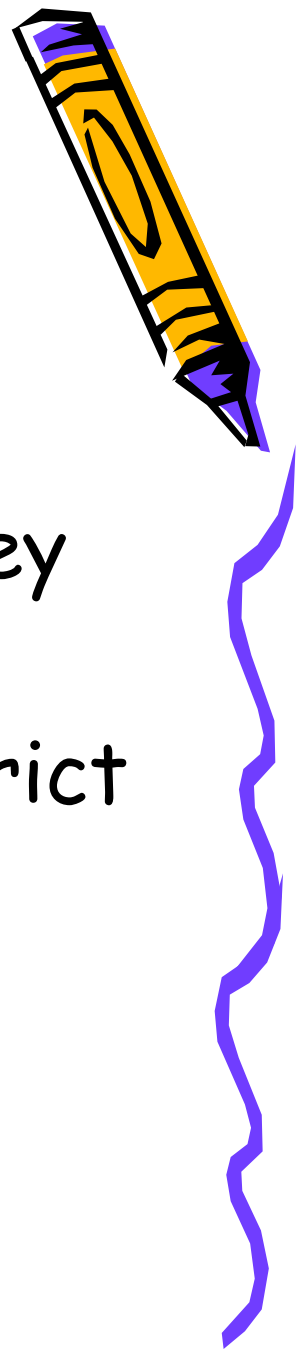
What are The Objectives of Internal Control?



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



Why is Internal Control Important?



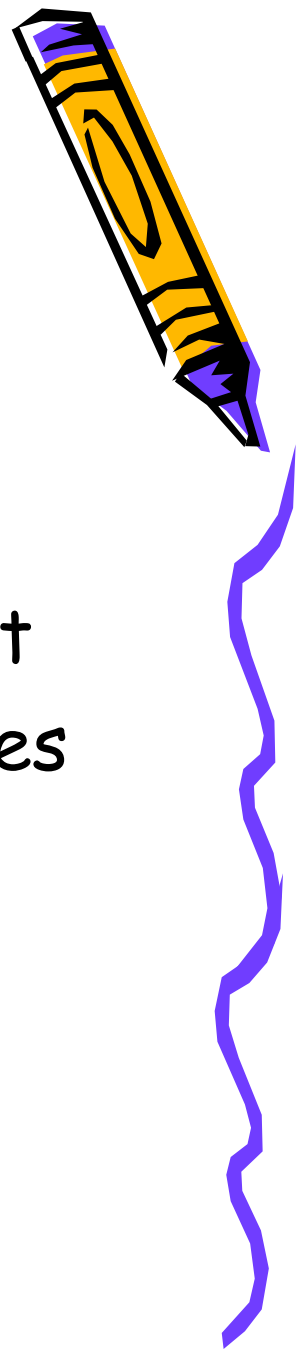
- Internal control protects you by catching small mistakes before they become big problems.
- Internal control protects the district by removing opportunities for innocent mistakes or intentional fraud to cause harm.



The Components of Internal Control

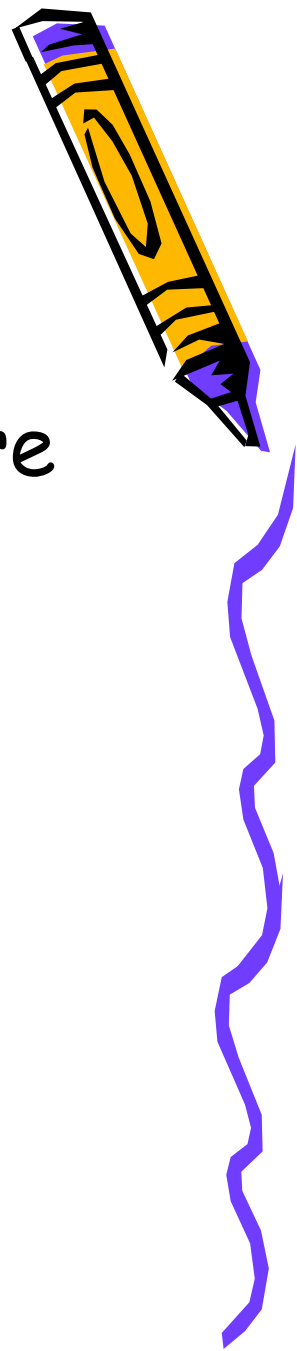
Internal Control is composed of a number of interrelated components that work together to achieve the district's goals.

- 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



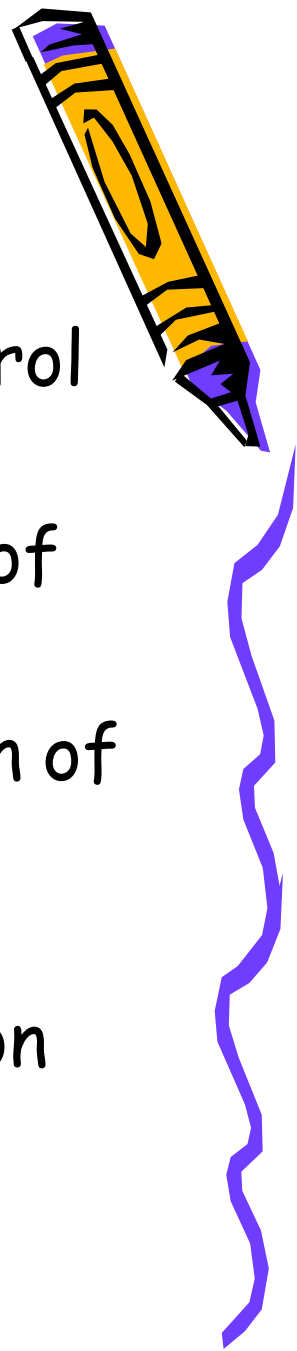
Risk Assessment

- 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

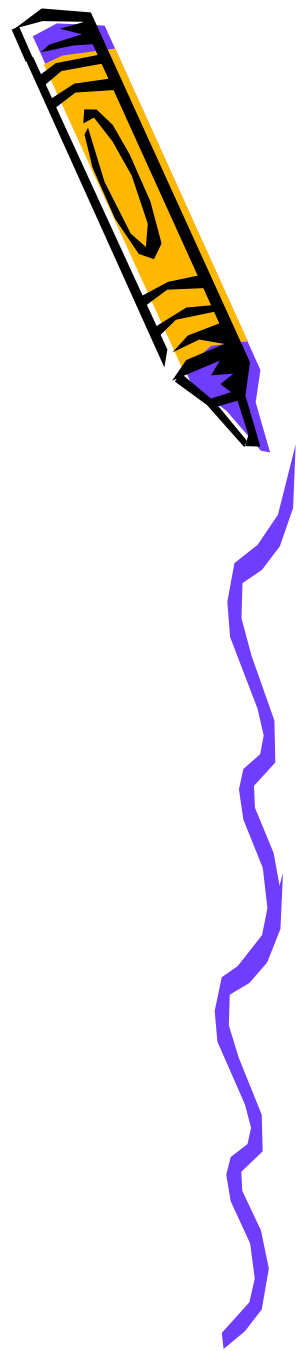


Control Activities

- 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

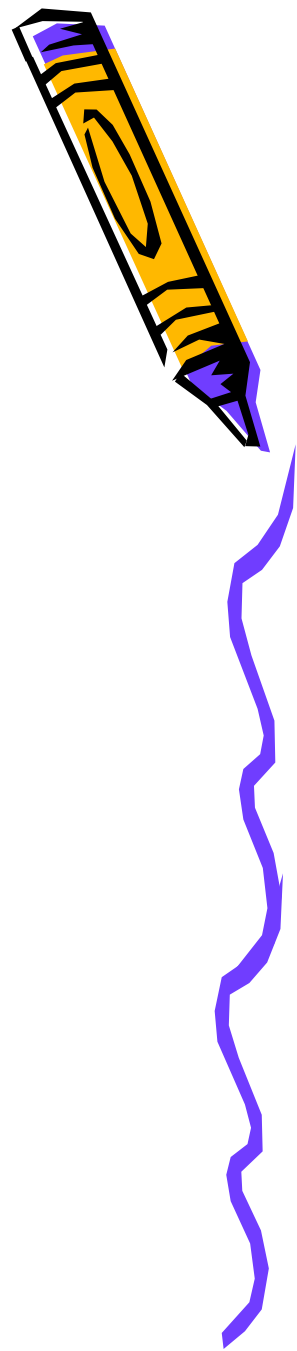


- Limit Access
 - Supplies
 - Building
 - Computer Programs
 - Cash
- Periodic Inventory Unannounced

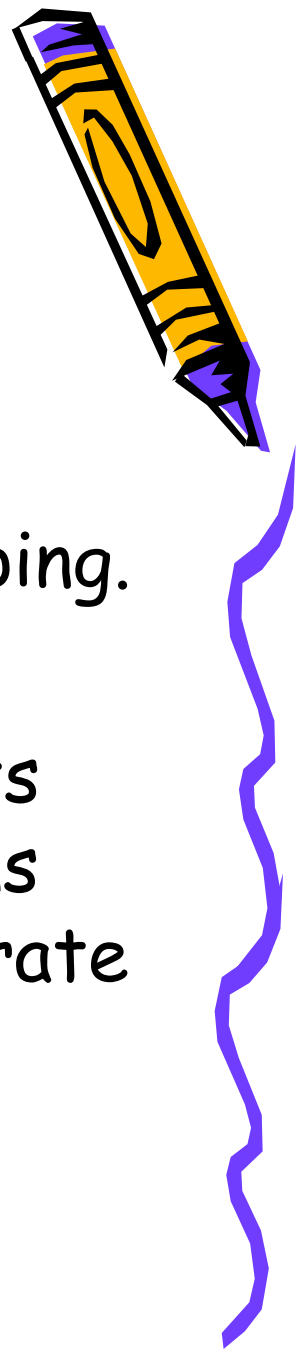


Authorization of Activities

- 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.



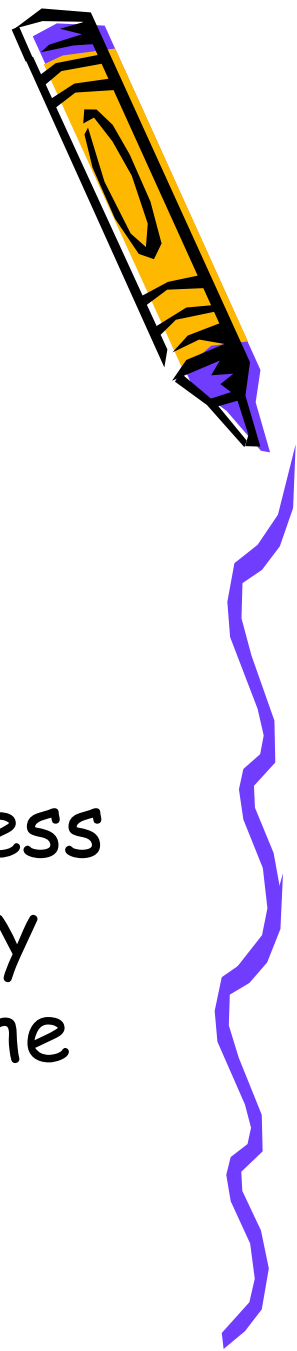
Independent Performance Review



- 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

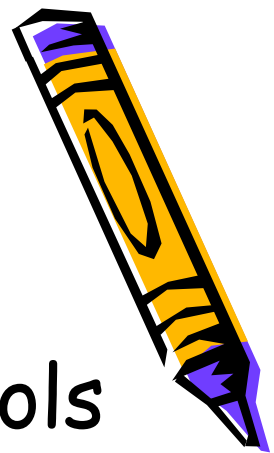


- Adequate information and communication systems help the district personnel obtain and process information that is needed to carry on and control the operations of the district



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

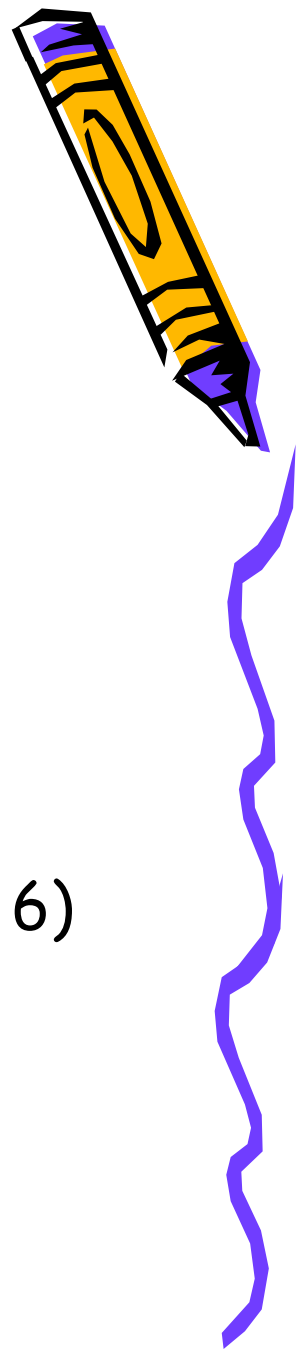


- The effectiveness of any system of internal control depends on the competence of the people who use it.
- Internal control can be weakened by the management override of control activities.
- Controls can be defeated by the collusion of two or more people.



Department of Education Accountability Regulations

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

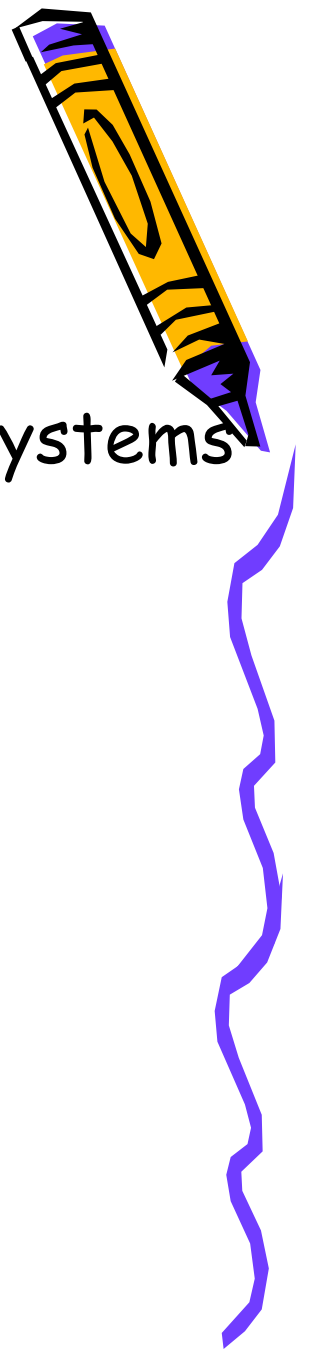


Internal Controls

- 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



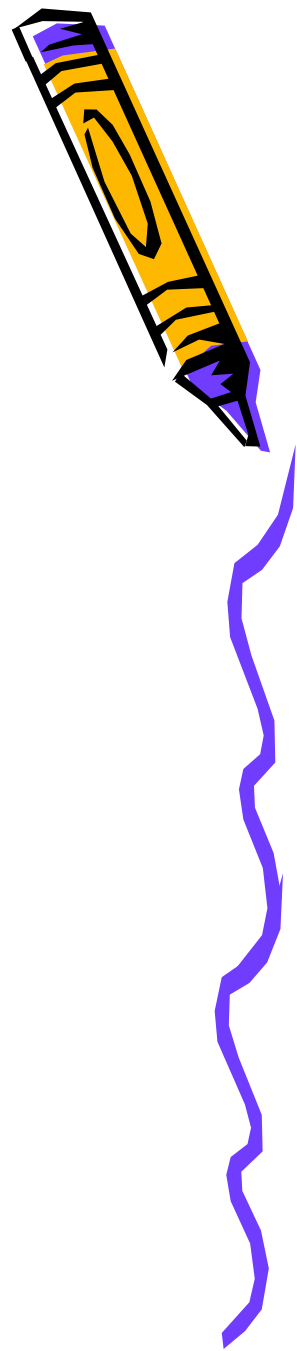
Internal Controls (Con't)



- 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



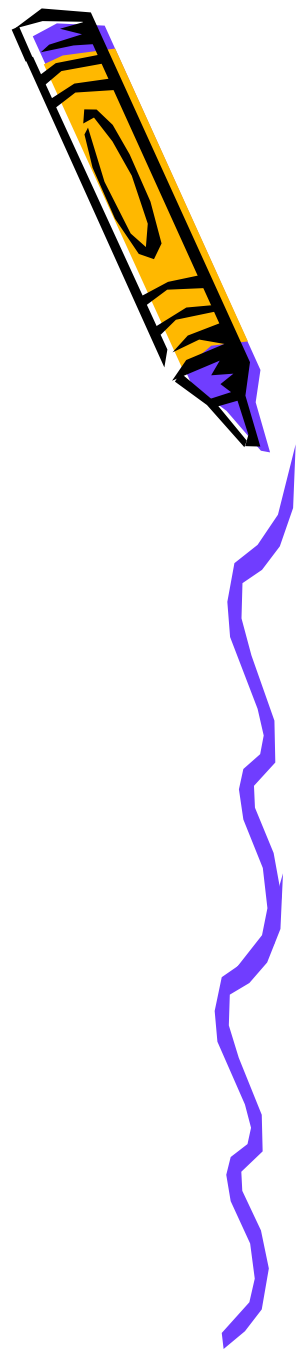
Internal Controls (Con't)



- 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

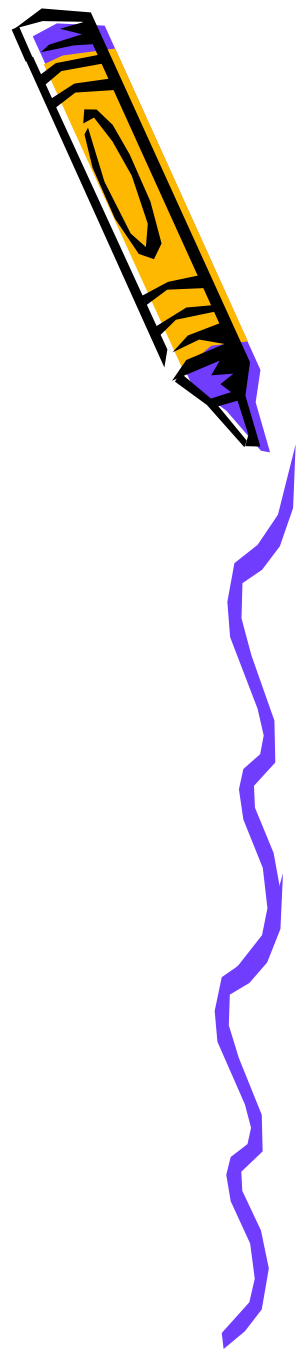


Performance Audit Results Continued

- 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

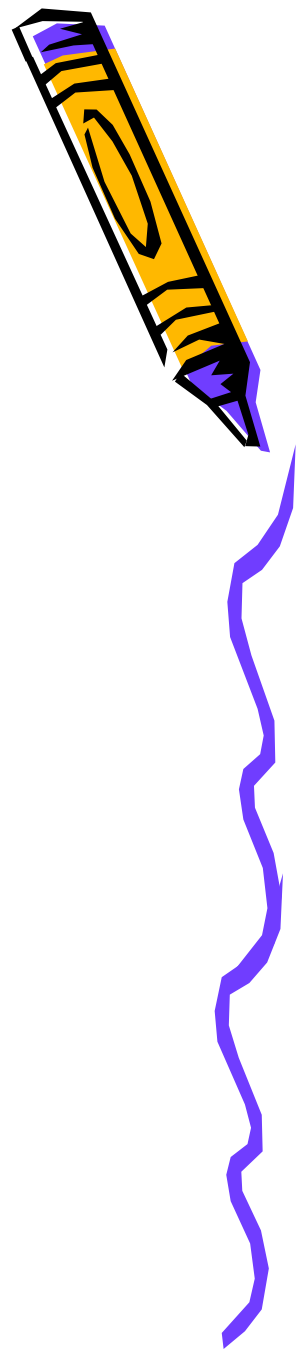


- Purchasing
 - Segregation of Duties
 - Approvals (Reqs, PO's Inv)
 - Documents Missing
 - Open PO's
- I can keep going forever.....



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

