

Tips for Good Internal Controls



presented by:

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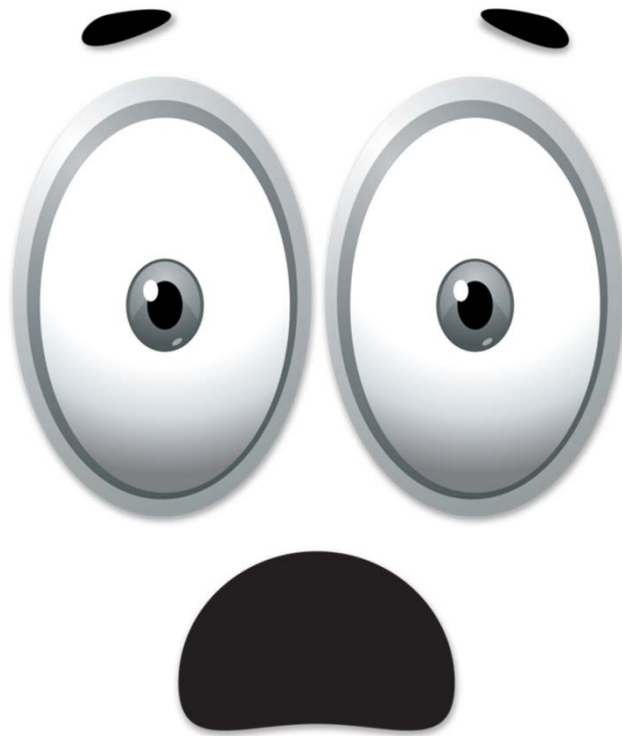
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So.....are you worried yet???



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So, what's the biggest lesson learned from Dixon?

“Trust is not an internal control.”

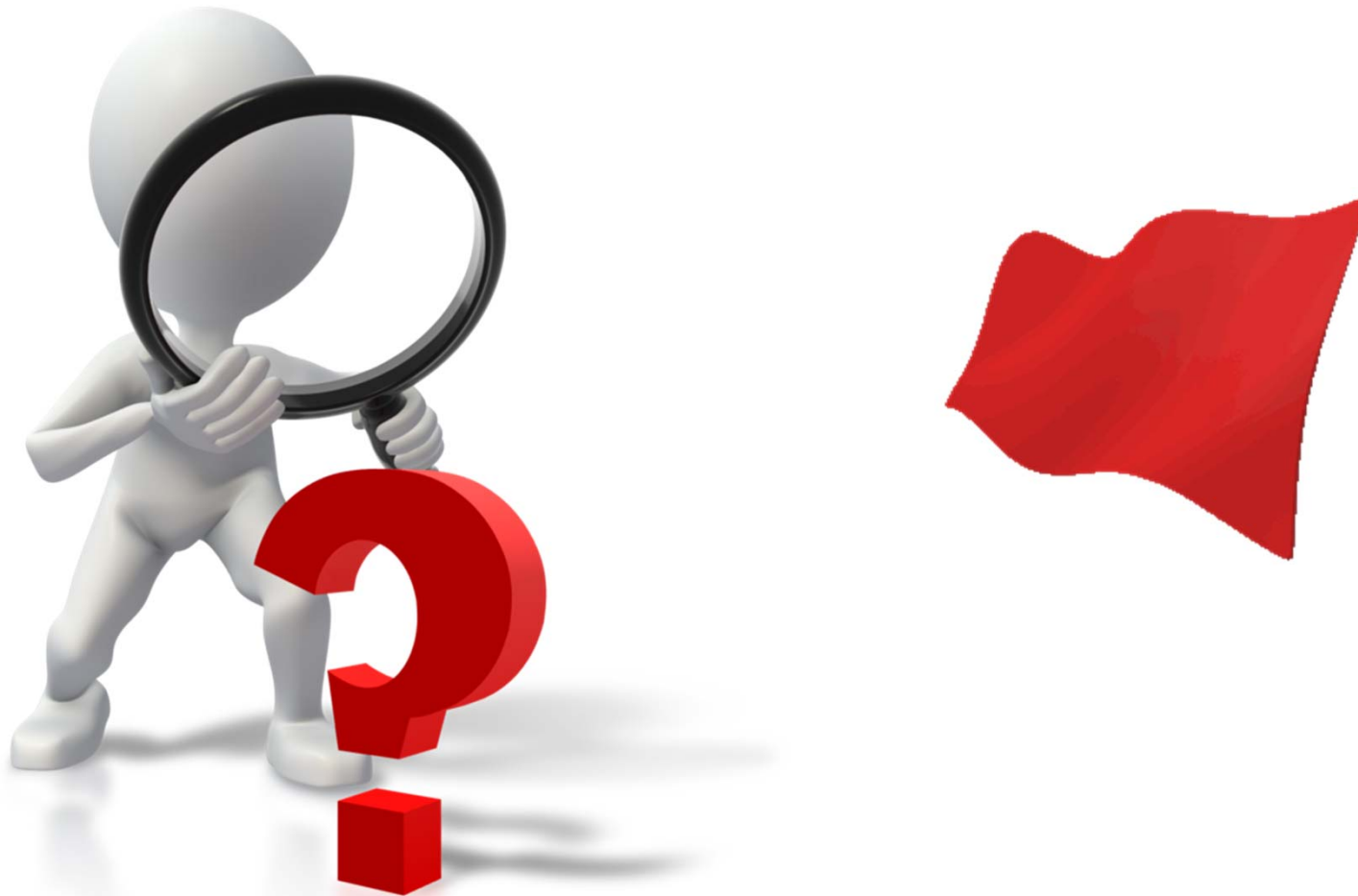


Red Flags

- Bank reconciliations not performed in timely manner
- One individual with control
- Altered documents
- Employees living beyond their means
- Receivables open for long periods
- Receipts not provided for direct payment of fees



Does any of this sound familiar?

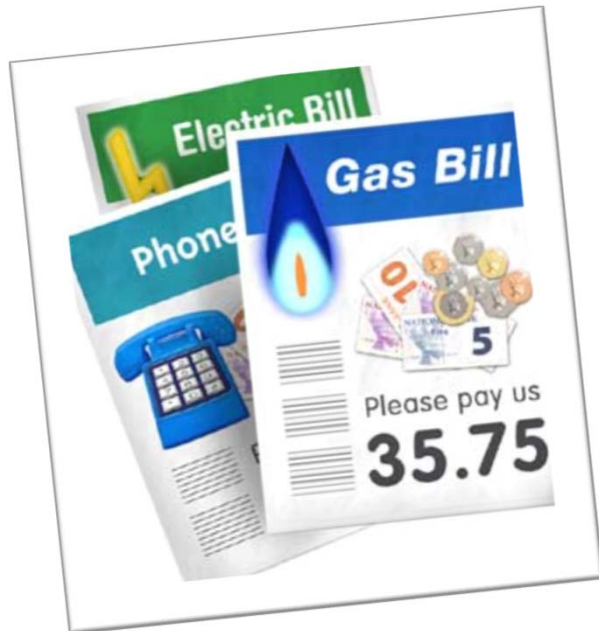


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Fraud Triangle



Needs



- Facing foreclosure
- College tuition
- Spouse lost job
 - Family
- Medical Expenses



Wants



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Rationalization



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Opportunity



**This is the
only part of
the equation
that YOU can
control!**

Under the right circumstances...



ANYONE can commit fraud!

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So, what can **YOU** do to minimize
the Opportunity?



Government Oversight and Behavior

“Tone at the Top”



- Communication of the governing body’s commitment to ethical behavior by all employees
- Communicate to employees why controls are important

The hallmark of any system of financial controls is segregation of duties.

Principal incompatible duties are:

- Custody of assets
- Authorization or approval of transactions related to those assets
- Recording or reporting on those related assets

Segregate Duties & Access to Assets

- No one person should:
 - Perform all functions in an accounting cycle
 - Have the ability to cover up an intentional or unintentional accounting error
- Involve non-finance employees in the process
 - Sign checks
 - Review and approve expenditures
 - Examine and approve bank reconciliations
 - Review “payroll change reports”

Comprehensive System of Internal Controls

Consists of Policies and Procedures:

Policies are Board-adopted
(over-arching principals)

Procedures are tasks and methods

POLICIES
+ PROCEDURES

INTERNAL
CONTROLS

Why Establish Policies & Procedures

- Provide clarity of responsibilities and roles
- Serve as reference point during staff transition
- Reduce risk of loss
- Promote sound fiscal management
- Meet expectations of the public

Financial Controls



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Maintaining Accountability of those Assets

- Receive regular reports...and read them!
 - Ask questions and get reasonable answers
 - Review financial statements and compare to budgets, past experience, known events, etc.
 - Independently verify and check facts



Cash Receipts

- All cash intended for use by the government is....



- Received
- Deposited in the government's bank account
- Recorded in the general ledger in the proper amount, account and accounting period

Cash Receipts

- Typical policies can include....
 - Multiple individuals required to count and verify “cash” deposits
 - Do NOT accept cash payments (i.e., checks or online payments), and if you do REQUIRE a receipt!
 - Receive funds by direct wire whenever possible (i.e., Compnet)
 - Have a non-financial person open and record all receipts, either in a log book or directly on the deposit slip, and reconcile with the general ledger monthly

Cash Disbursements

•All expenditures by the government should be....

- Properly authorized and received
- Paid from original invoices and verified for mathematical accuracy
- Recorded in the general ledger in the proper amount, account and accounting period



Cash Disbursements

- Typical policies can include....
 - All unused checks and signature stamps are securely stored
 - Person signing checks should keep track of last check number used
 - Limit use of debit cards if used at all
 - Person not associated with preparing checks monitors the bank accounts and reviews timely bank reconciliations
 - Limit access to accounts payable/check writing function in the general ledger system
 - Wire transfers follow same approval procedures as checks
 - Dual signatures over certain high-dollar value

Payroll and Expense Reimbursements

- Typical Payroll policies can include....
 - Time sheets require supervisory approval
 - Payroll change report reviewed and approved by someone independent of payroll processing (ie, Town Administrator, Commissioner)
- Typical Expense Reimbursement policies can include....
 - Approval is required before making travel arrangements
 - Establish a policy regarding rates for mileage, meals, etc.
 - Set a time limit on submission of expenses

Non-Financial Controls

Human Resources

- Require vacations
- Cross-train employees to perform jobs during vacations or absences
- Perform background checks on new employees, or at least check references



Non-Financial Controls

Employee Handbook

- Written “Code of Conduct”
 - All employees must act with integrity and in an ethical manner
- Clearly state all policies
 - Vacation/leave policies
 - Payroll policies
 - Disciplinary action



Non-Financial Controls

Whistle blower program



- Employees
- General Public
- 40% of the frauds in the U.S. uncovered in the “2018 Global Fraud Study” by the ACFE were initially detected through a “tip”

Non-Financial Controls

Physical security

- Lock valuables in a safe or locked drawer/cabinet
- Limit access to combinations and keys
- Use passwords to guard/limit access to your financial computer systems



Non-Financial Controls



Insurance

- Have adequate coverage in the event that a fraud occurs
- Bond all employees with access to financial assets

Controls only work if you comply with them.



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Questions

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