Tips for Good Internal Controls

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

• Facing foreclosure
• College tuition
• Spouse lost job
  • Family
• Medical Expenses
Rationalization
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?

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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
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

- 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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