

INTERNAL CONTROLS – THINGS WE DO TO KEEP BAD THINGS FROM HAPPENING



Jim Arnette, CGFM, CISA
AGA National President



INTERNAL CONTROLS



- “Fraud just couldn’t happen here because all our employees are honest.”
 - “Our office is small... We don’t have any fraud risks.”
 - “Implementing internal controls is too costly.”
 - “Internal controls? That’s why we have insurance.”
 - “Utilizing internal control procedures is not worth the effort.”
- WE DIDN'T THINK IT COULD HAPPEN TO US...**
- “We get audited every year, why do we need controls?”



INTERNAL CONTROLS



“There’s no such thing as a small fraud...Some frauds just haven’t matured yet...”




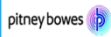
INTERNAL CONTROLS











INTERNAL CONTROLS


Account Name: Charles Oatis
Purchase Power Account Number: 8200-0000-0096-5470

Purchase Power® Account Statement



191 Vendor Checks
\$200,000

INTERNAL CONTROLS



FRAUD TRIANGLE

INTERNAL CONTROLS



FRAUD IN TENNESSEE

- Over 900 hotline contacts (via phone and website)
- Approximately 150 fraud reporting forms
- \$3.6 million in cash shortages



INTERNAL CONTROLS



INTERNAL CONTROLS



WHAT ARE INTERNAL CONTROLS?

- Internal controls are methods put in place to provide reasonable assurance that the objectives of the government will be achieved in operations, reporting, and compliance...
- Checks and balances that are in place to detect and to help prevent fraud...
- Things we do to keep bad things from happening...
- They keep things under control...



INTERNAL CONTROLS




INTERNAL CONTROLS

KEY EVENTS IN INTERNAL CONTROL HISTORY

- 1983 – GAO establishes Standards for Internal Controls in the Federal Government – This was the Green Book...
- 1984 – Single Audit Act
- 1992 – COSO releases the Internal Control Framework
- 2004 – COSO – Enterprise Risk Management – Integrated Framework
- 2006 - SAS 112 - Communicating Internal Control Matters Identified in an Audit
- 2014 – OMB Uniform Grant Guidance



INTERNAL CONTROLS



WHY DO WE NEED INTERNAL CONTROLS?

- Reduce opportunities for fraud and waste
- Help management make better informed decisions
- Establish performance standards
- Help ensure compliance with applicable laws, regulations, policies, and procedures
- Eliminate adverse public
- Protect government assets
- Promote effectiveness and efficiency of operations
- Ensure reliability of financial reporting
- Promote transparency and accountability



INTERNAL CONTROLS
WHO'S RESPONSIBLE FOR INTERNAL CONTROLS?

- Management
- Governing Board
- Audit Committees
- Internal Audit Function

INTERNAL CONTROLS





INTERNAL CONTROLS




LINCOLN COUNTY
 Board of Public Utilities











INTERNAL CONTROLS




\$293,779.22
in unapproved
bonuses



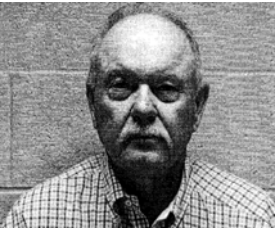

INTERNAL CONTROLS




Employee Name
825 - Adultry
Watch on LCBPU
Employee [redacted]
Employee Name
Aug 19 08
[redacted]
Superintendent Signature



INTERNAL CONTROLS



Billy Joe Wiley



INTERNAL CONTROLS

Internal Controls

Oliver Springs Housing Authority



\$149,516.83 Cash Shortage



INTERNAL CONTROLS

Internal Controls



INTERNAL CONTROLS

Internal Controls




INTERNAL CONTROLS

INTERNAL CONTROLS

INTERNAL CONTROLS

- No oversight by the Board of Commissioners
- Didn't operate within their budget
- Used hand-written receipts
- No segregation of duties
- Multiple employees used the same cash drawer
- Deposits not made in a timely manner
- Accounting records not kept on a current basis
- Checks only contained one signature
- Credit card invoices paid without supporting documentation

INTERNAL CONTROLS






"Never trust the people you cheat with. They'll throw you under the bus."

Marianne Jennings, Ethics Professor, Arizona State University, Author


"Three people can keep a secret if two are dead."

Ben Franklin, Founding Father






INTERNAL CONTROLS

KEY POINTS TO REMEMBER



- Internal control is the combination of people, policies, and procedures that organizations rely upon to obtain reasonable assurance that their government's operating effectively
- The primary responsibility for internal control lies with management...But the governing body has the ultimate responsibility to be sure management is doing what they're supposed to do
- External auditors rely on internal controls to support their audit opinions regarding the financial statements
- Audit committees and internal auditors support management and the governing body regarding internal control
- Reasonable assurance requires an internal control system that addresses the 5 components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring
- Even the best system of internal control will fail in an unfavorable environment
- Risk assessment is not a one-time event...It's an on-going process



INTERNAL CONTROLS





| INTERNAL CONTROLS

**“Accounting and Accountability
Professionals Working Together
to Make Government Work
Better...”**

Jim Arnette

AGA National President

Jim.Arnette@cot.tn.gov
615.401.7841