

Why Internal Controls?

June 19, 2018

Treasurers' Association of Virginia

What are Internal Controls?



PEOPLE



TOOLS



POLICIES



Roles and Responsibilities Of The Treasurer

Internal Control Defined

- Any action taken by management, the Board, and other parties to **manage risk** and increase the likelihood that established objectives and goals will be achieved. (**Institute of Internal Auditors**)
- A process used by management to help an entity achieve its objectives. (**US Government Accountability Office or GAO**)

System of Internal Controls

- Dynamic and Integrated Processes
- Established, Maintained, Monitored by People at All Levels
- Costs Should Not Exceed the Benefit



**WHAT'S GREEN AND HELPS YOU
MANAGE ALL YOUR
RESPONSIBILITIES?**

CASH?



IRISH MARTINI?



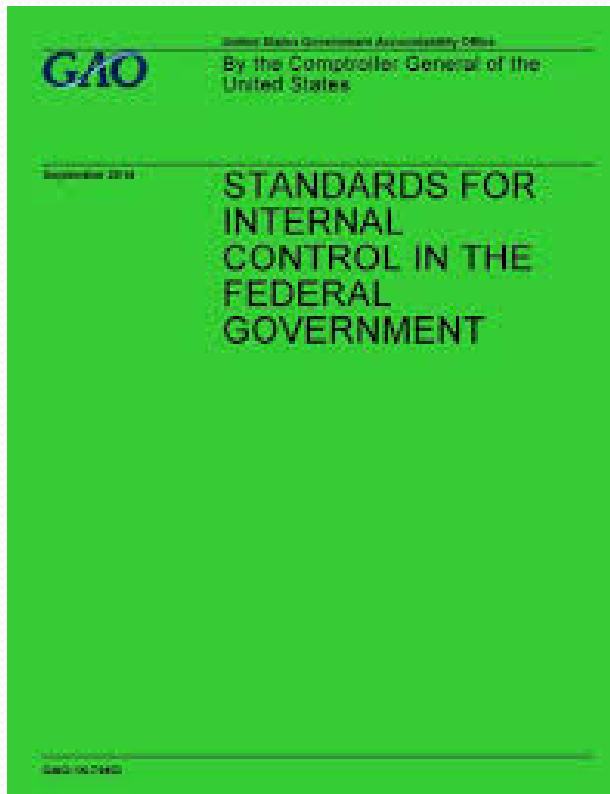


MARIJUANA HORTICULTURE

Your Complete Guide for
Personal Marijuana Cultivation

MARK ELLIOTT

GREEN BOOK



Where to Find the Green Book

- The Green Book is on GAO's website at: www.gao.gov/greenbook
- For technical assistance, contact us at: greenbook@gao.gov

KNOW YOUR OBJECTIVES



**Objective
identified**



**Controls
designed**



**Controls
in place**



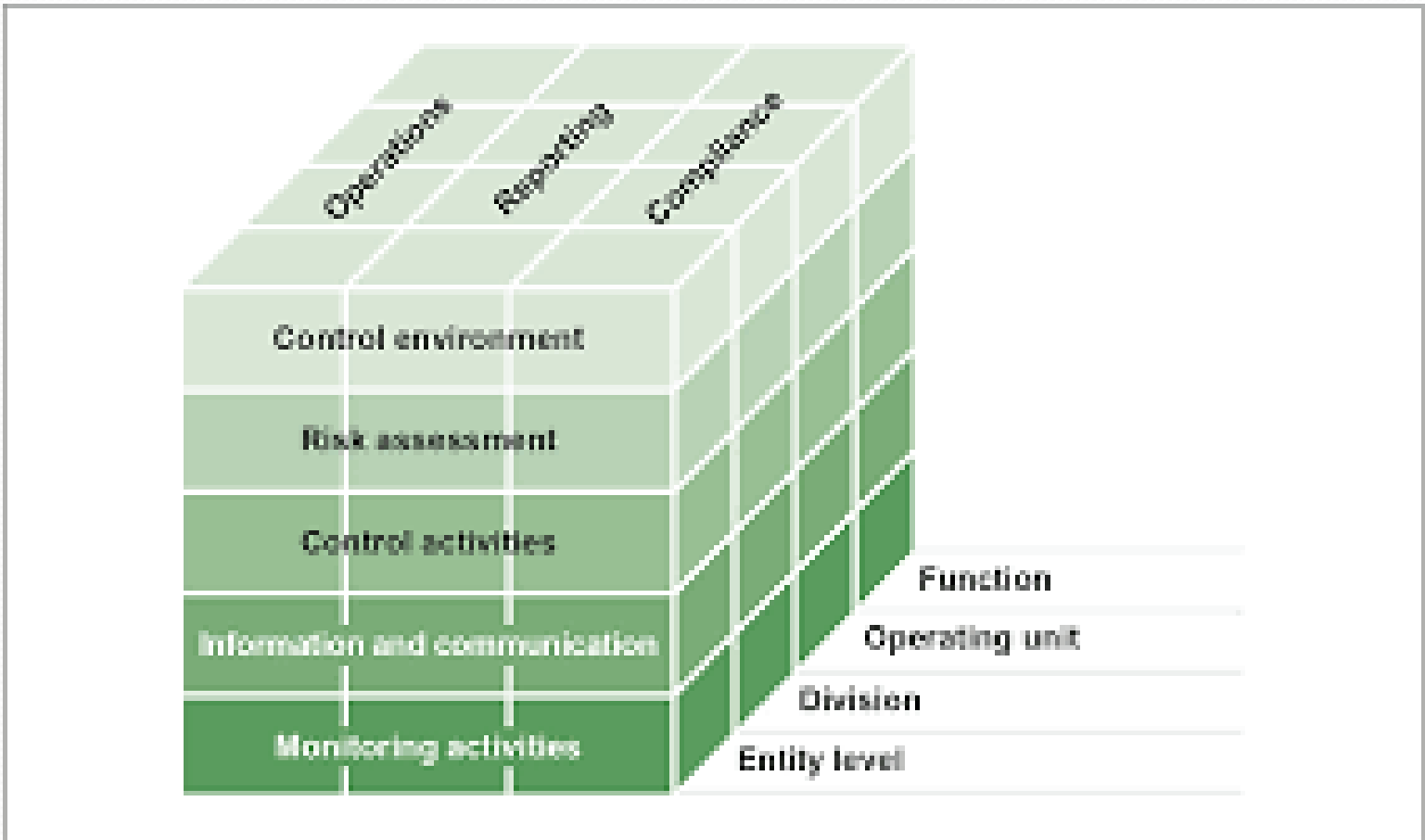
**Objective
achieved**

EXERCISE: RISKS & CONTROLS

Objective: Collect Past Due Accounts

	Goals	Potential Risks	Impact	Probability	Controls
Operations					
Reporting					
Compliance					

THE CUBE



Source: COSO.

COMPONENTS OF CONTROL



Revised Green Book: Principles

Control Environment

1. Demonstrate Commitment to Integrity and Ethical Values
2. Exercise Oversight Responsibility
3. Establish Structure, Responsibility, and Authority
4. Demonstrate Commitment to Competence
5. Enforce Accountability

Risk Assessment

6. Define Objectives and Risk Tolerances
7. Identify, Analyze, and Respond to Risk
8. Assess Fraud Risk
9. Analyze and Respond to Change

Control Activities

10. Design Control Activities
11. Design Activities for the Information System
12. Implement Control Activities

Information & Communication

13. Use Quality Information
14. Communicate Internally
15. Communicate Externally

Monitoring

16. Perform Monitoring Activities
17. Remediate Deficiencies

CONTROL ENVIRONMENT

1. Commitment to Integrity and Ethical Values
2. Responsibility for Internal Controls Goes All the Way to the Top
3. Organizational Structure, Responsibility, Authority
4. Recruit, Develop, and Retain Competent People
5. Hold People Accountable

RISK ASSESSMENT

1. Clear Objectives are Needed to Effectively Identify Risk and Risk Tolerance
2. Risks Must be Identified, Analyzed, Addressed
3. Risks of Fraud Must be Considered
4. Significant Changes Affecting I/C Must be Responded To

CONTROL ACTIVITIES

1. Design Control Activities to Respond to Risks
2. Design Information Systems to Respond to Risks
3. Implement Control Activities Through Policies

INFORMATION & COMMUNICATION

1. Information Should be Accurate and Relevant
2. Information Should be Communicated Throughout the Organization Timely and by Appropriate Methods
3. Information Should be Provided to Appropriate External Parties Timely and by Appropriate Methods

MONITORING

1. Monitor Internal Control Systems and Evaluate Results
2. Remediate Internal Control Deficiencies on a Timely Basis

EXERCISE: SHARING IDEAS

1. Have All 5 Components of Internal Control been Addressed in Your Office?
2. Share Ideas that Touch on All 5 Components
 - ❖ Control Environment
 - ❖ Risk Assessment
 - ❖ Control Activities
 - ❖ Information & Communication
 - ❖ Monitoring

Service Organizations

- 3rd Parties Performing Operational Processes
 - Mailing Services
 - Lockbox Services
 - Payment Processors
- Treasurer Remains Responsible for Performance and Compliance
- Oversight Considerations

- Nature of Service

- Size and Structure

- Standards of Conduct

- Complexity of Operations

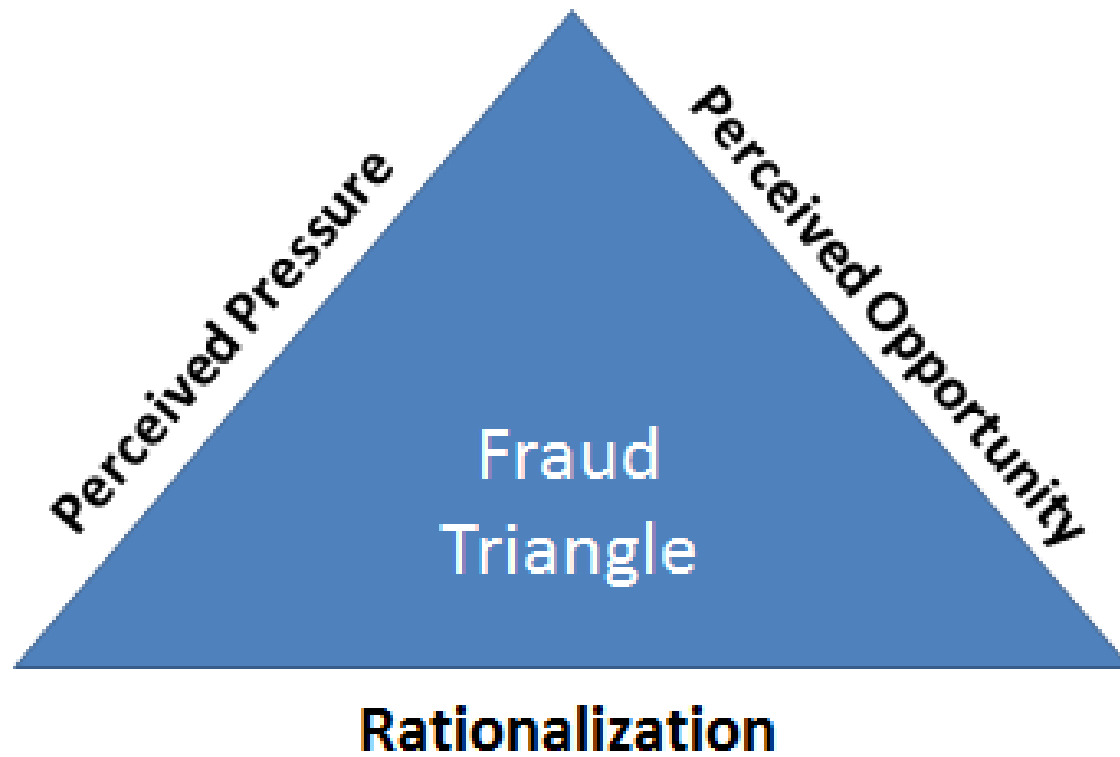
Segregation of Duties

- One Size Does Not Fit All
- Customer Service Considerations
- Preventive Versus Detective Controls

THREATS TO INTERNAL CONTROL

- Management Override
- Unnecessary Access to Assets
- Form Over Substance
- Conflicts of Interest
- Failure to Anticipate Risks
- Collusion

Fraud Triangle





FACES OF FRAUD

Rita Crundwell

1983 - Appointed
Treasurer Dixon, IL

1990 – Set up Secret
Acct

2012 – Convicted of
stealing \$54 Million

2013 – Sentenced to 19
years in prison



FACES OF FRAUD



MARTHA STEWART

BERNIE MADOFF





From Murphys-laws.com

“There is never enough time to do it right the first time, but there is always enough time to do it over.”

“To err is human, to forgive is not company policy”