Internal Controls

FMC Monthly Meeting

March 28, 2024

Agenda

- A few quick reminders

- Where can I find guidance?

- Key Control Activities

- Next Submission

Internal Controls

- A few quick reminders

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Internal Controls – What is It?

- A process that provides reasonable assurance that the **objectives of the organization will be achieved**.

- **Not one event, but a series of actions** that occur throughout an organization's operations.

- An **integral part** of the operational processes and not a separate system.

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Internal Control Importance

- "Why" should we all care about your internal control system:

    - Effective internal controls provides reasonable assurance that objectives of the organization will be achieved:

        - Accurate accounting records and financial reports
        - Maintain fiscal health of the State

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Internal Controls

- Where can I find guidance?

Internal Control – SAO's website

Everyone in the organization has a responsibility for internal controls. An effective internal control system is maintained by the diligence of every person, has many benefits, and provides reasonable, but not absolute, assurance that an organization's objectives will be achieved. Following is the statewide guidance, templates, and other guidance relating to internal controls.

Internal Controls Guidance

- PDF Introduction
- PDF Control Environment
- PDF Risk Assessment
- PDF Control Activities
- PDF Information and Communication
- PDF Monitoring

Internal Controls Submissions

- PDF Internal Control System User Guide

Green Book

- The Green Book
  - PDF Outline of Different Elements of the Green Book

https://sao.georgia.gov/policies-and-procedures/internal-controls

Internal Control – Other Sources

- Internal Controls can be found in many other sources, such as:
  - Governor's Executive Orders
  - Official Code of Georgia Annotated (O.C.G.A.)
  - Statewide guidance
  - Policies (Statewide and Agency specific)
  - Procedures (Statewide and Agency specific)
  - Etc.

Internal Control – Organization Specific

- In addition to the Statewide guidance, your Organization should also have more specific internal control related policies and procedures as well, such as:

  - Policy and Procedures Manual
  - Job Descriptions
  - Internal Controls submissions to SAO

Just remember you are still responsible to understand the Statewide guidance and policies requirements, along with verifying that the policies are being followed impact at your Organization.

Internal Controls

- Key Control Activities

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Control Activities

- Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.

- Control activities can be either preventive or detective, with the main difference being the timing:
  - <u>Preventive</u> – prevents errors from occurring, and preventing these errors helps an organization achieve an objective or addresses a risk.

  - <u>Detective</u> – detects errors or irregularities after it occurs. Also, detective controls discover when an organization is not achieving an objective or addressing a risk and corrects the actions before the organization's operation has concluded so that the organization can achieve the objective or address the risk.

Control Activities – Reconciliations

- What is a reconciliation?

  - Comparing a balance in the accounting records to a source document and **following up on any differences**. Some examples of reconciliations include:
    - <u>Bank Reconciliation</u> – comparing amount of cash in accounting records to bank cash balance.

    - <u>Control Account Reconciliation</u> – comparing of amounts in subsidiary ledger (ex: customer accounts) to control account (ex: accounts receivable) balance.

    - <u>Clearing Account Reconciliation</u> – reconciling amounts in the clearing account (which accumulates transactions which are later distributed to appropriate accounts.

Control Activities – Bank Reconciliation

- Important steps to be done during the bank reconciliation process:
  - Verify ending bank balance agrees to balance per the accounting records (for the same date)

  - If they do not agree determine the reasons for differing amounts, such as:
    - Outstanding checks
    - Deposits in transit
    - Other reconciling items (such as wire transfer performed, but not entered)

- Don't forget…. SAO has issued a _Bank Reconciliation Policy_ issued on our Business Process Policy website: https://sao.georgia.gov/policies-and-procedures/business-process-policies

Control Activities – Bank Reconciliation

- What is the purpose of a bank reconciliation?

  - Verification of the amounts is key to a reconciliation which means "***following up on any differences".***

  - SAO's <u>Bank Reconciliation Policy</u> requires each organization to "reconcile all bank accounts monthly and resolve all reconciling items in a timely manner."

  - While each organization should list out reconciling items, it is more important to ***resolve*** the reconciling items.

Control Activities – Bank Reconciliation

- What are the impacts of not resolving the reconciling items?

  - The bank reconciliation is not fully complete, in compliance with SAO's _Bank Reconciliation Policy_.

  - There could be errors in the accounting records that are not discovered timely, such as:
    - Transactions not recorded.
    - Amounts not recorded at the correct amount.
    - Amounts recorded but the transaction did not actually occur.

  - There could be fraud occurring that is not being detected (or not detected timely).

  - Audit Findings.

- Bank reconciliations are one of the most important detective control activities to ensure accurate accounting records and ultimately accurate financial reports.

Control Activities – Bank Reconciliation

- Of the organizations that did submit bank reconciliation almost every reconciliation had outstanding reconciling items that were more than 3 months old, such as:
  - OS deposits not on ledger
  - JV Deposit correction -21
  - GF1 Interest not entered to GL
  - Deposit not booked
  - Transfers not recorded to the general ledger
  - Deduction: Duplication Revenue

  - OS Checks

Why not just record these?

Were these proper payments or did someone steal?

Should these be turned over to DOR as unclaimed property?

Control Activities – Clearing Account Reconciliation

- Similar to bank account reconciliation, clearing accounts should zero out and any differences should be followed up on. Consider the reconciling items should be listed and have supporting documentation.
  - Note: travel accounts are exempt, however, there should still be a reconciliation performed (with supporting documentation) to support the balances are due to outstanding travel (such as air and hotel)

- Again, don't forget…. SAO has issued an Accounting Manual Policy *Control/Clearing Accounts - Balancing Requirements* on our website: https://sao.georgia.gov/policies-and-procedures/accounting-policy-manual

Control Activities – Clearing Account Reconciliation

- What are the impacts of not resolving the reconciling items?

  - The clearing account reconciliation is not fully complete, in compliance with SAO's _Control/Clearing Accounts - Balancing Requirements_ policy.

  - There could be errors in the accounting records that are not discovered timely, such as:
    - Transactions not recorded.
    - Amounts not recorded at the correct amount.
    - Amounts recorded but the transaction did not actually occur.

  - There could be fraud occurring that is not being detected (or not detected timely).

  - Audit Findings.

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Control Activities – Reconciliations

- Overall importance of Reconciliations:

  - Think back to the earlier slide from today:

    - Effective internal controls provides reasonable assurance that objectives of the organization will be achieved, i.e.; accurate accounting records and financial reports.

- Therefore, reconciliations help the organization and SAO *know that internal controls are in place* to support the following financial objectives:
  - *Statewide policies are being complied with*;
  - Accounting records are **accurate**;
  - *Accurate Statewide reports* can be produced; and
  - *Accurate information* will be brought into Workday.

Internal Controls

- Next Submission

Internal Control – Next Submission

- Control Environment and Risk Assessment/Control Activities:
  - Will be due near end of fiscal year.

  - Similar to prior years' (previous responses will be pre-populated in the software).

  - Please *review carefully and update* as necessary, considering:
    - Any Changes?
    - Is it still valid?
    - Do the answers tie to the specific risk example?
    - Should not be any blanks.

  - SAO will be providing each organization with feedback based on the previous submission.

Internal Control – Navigation

- Assessments will again be used to review and gather internal control information.
  - These are accessed via the dashboard.

- It is very important to use the proper dashboard for your role or activity you are looking to perform.
  - For **CFOs** there are two dashboards to be used:
    - CFO Assessment Responses Dashboard – this is used to access internal control submissions not yet completed.
    - CFO Assessment Results – this contains views of graphs and charts relating to submitted internal control responses.

  - For **Contributors** there is one dashboard to be used:
    - Contributor Dashboard – this is used to access internal control submissions not yet completed.

Internal Control – Navigation

- Once logged in, go to Home and My Dashboard.
  - Do not recommend using "Tasks" as last year there were some problems with this area.
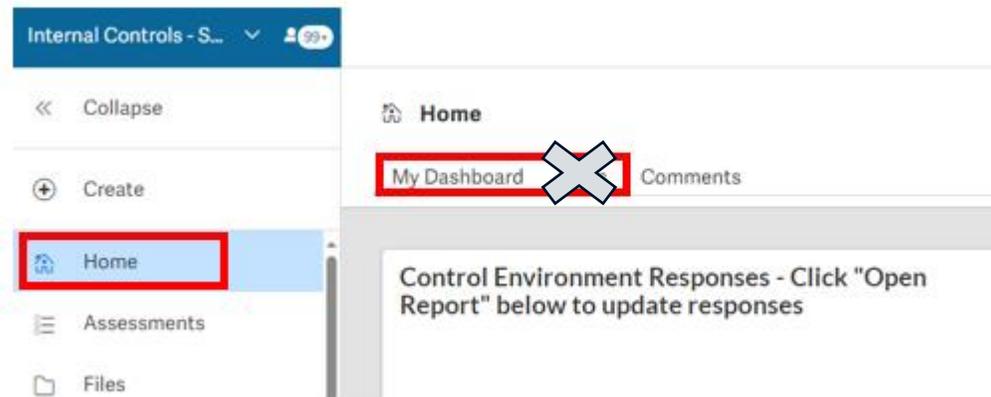
- Don't forget about the user guide (contains detailed instructions) posted on SAO's website: https://sao.georgia.gov/policies-and-procedures/internal-controls

Internal Control – Submission

- Access the appropriate dashboard via the drop down in the upper right hand corner.

- Dashboards must be used to access internal control assessments.

Internal Control – Submission

- There will be numerous assessments that are required to be completed:
  - Control Environment (CE)
  - Control Activities – Detailed (CA:D)
  - Control Activities – Not Detailed (CA:ND)
  - Risk Assessment – Recording (Record:RA)
  - Risk Assessment – SEFA (SEFA:RA)
  - Risk Assessment – Reporting (Report:RA)

- CFO can respond in "form view" or "report view" but Contributor only can access "report view".
  - Same content just different layouts.

Control Environment Submission

- Probably one of the easier ones to review and complete, however, may involve talking to others within your Organization, such as including more non-finance people, as this submission relates to the overarching Tone at the Top, Standards of Conduct, Oversight, etc.

- For each internal control attribute, respond to the following:
  - Does your organization meet this Standard?
  - Describe how you meet this Standard.
  - Provide references or support for the narrative of how you meet this Standard.

5 - Management evaluates performance and hold individuals accountable for their internal control responsibilities.
5.1 - Enforcement of Accountability
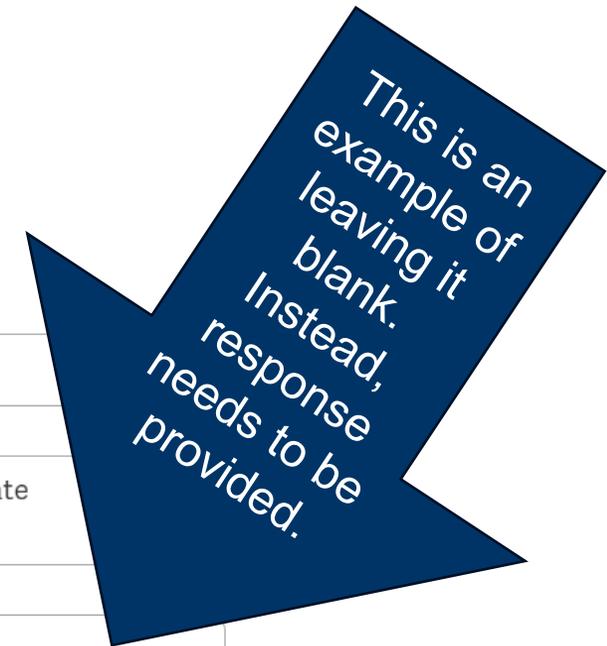
Does your organization meet this standard?
Yes

Please describe how you meet this standard.
Enforcement of accountability is a continuous process at the Commission. With a small staff, managers and supervisors evaluate performance on an ongoing basis and provide regular feedback to include annual performance evaluations. (RM)

Please provide any references or support for your narrative.
No response

This is an example of leaving it blank. Instead, response needs to be provided.

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Control Environment Submission

- Lastly, CFO certifies that the information is accurate.

SECTION 3: CFOs once all aspects of control environment has been carefully reviewed and updated click on the submit button to certify that the information is correct.

Note the assessment will not be completed until the submit button has been selected.

☑ I certify that this information is accurate. ⋮

Control Activities Submission

- Now answer control activities only once (no longer respond based on the risk step)

- For each control activity, respond to the following:
  - Is this control activity utilized?
    - Important to only us the approved responses in the box on each control activity (currently software does not allow us to restrict it to only the approved responses – this will cause an exception to populate)
  - Provide control activity details (for only the control activity being responded to).

RCD12 - Cash
RCD12 - Cash - Management/Program Staff Inquiry

Control Activity Description
Appropriate personnel at the organization are consulted to ensure all items are recorded.

Is this control activity utilized? (only choose one of the approved responses ==>)

No

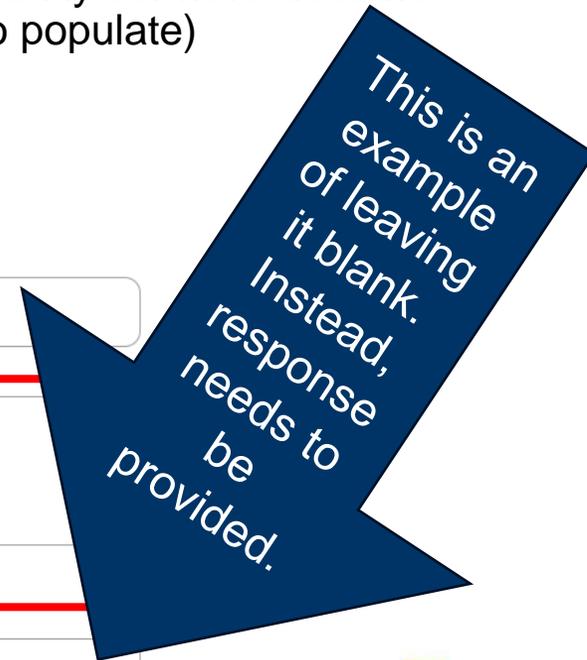Approved responses for this control activity
NA - This control is not applicable to the organization
No - This control IS NOT being utilized by the organization
Yes - This control IS being utilized by the organization

Read only

This is an example of leaving it blank. Instead, response needs to be provided.

THIS FIELD MUST BE COMPLETED: Control activity details (note: details should support control activity utilized response)

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Control Activities Submission

- CFO has to certify they reviewed the exception report and have verified that all control activity utilized responses agree to one of the approved responses.
    - This is needed as currently the software can not limit responses to only the approved ones.

No Report Data
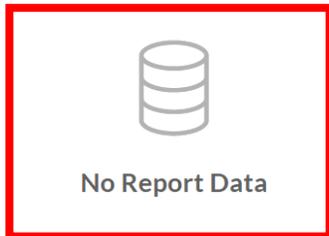
This means there are no exceptions.

Section 3a: Exception Report

Control Activity Utilized Responses Exception Report-Detailed

Read only

☑ I certify that I have reviewed the control activities exception report and have verified that all control activity utilized responses agree to one of the approved responses.

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Control Activities Submission

- Lastly, CFO certifies that the information is accurate.

SECTION 4: CERTIFICATION AND SUBMISSION

CFOs once all aspects of the control activities assessment has been carefully reviewed and updated click on the submit button to certify that the information is correct.

Note the assessment will not be completed until the submit button has been selected.

☑ I certify that this information is accurate.   ⋮

Risk Assessments Submission

- For each specific risk example, respond to the following:
  - Provide the rating and justification for the following risks:
    - Inherent Risk
    - Likelihood Risk
    - Impact Risk
  - Important to only us the approved responses in the box on each co...tivity (currently software does not allow us to restrict it to only the approved responses – this will ca...tion to populate)

Inherent - Approved responses for this risk

(High) The process is generally manual and involves the use of judgment.
(Low-CPA) information would have been Audited to ensure proper basis.
(NA) Organization does not have Federal loans or expenditures to report to SAO.

Read only

Likelihood - Approved responses for this risk

(High) Prior years (or anticipated current year) had many or some adjustments and process is manual which increases risk of improperly reported items on SEFA.
(Low) Prior years (or anticipated current year) had adjustments, but process is automated. Minimal increase to risk of improperly reported items on SEFA.
(Medium) Prior years (or anticipated current year) ha... few adjustments and process is man...ich coul... increase risk of improperly reported i... EF...
(Medium) Prior years (or anticipated c... many or some adjustments, process is... which could increase risk of improperly... items on SEFA.
(NA) Organization does not have Federa... expenditures to report to SAO.

Read only

Impact - Ap...
(High) P...
contai...
adju...
(L...

...ecorded
...year)
...of
...nsidered

...ted current year)
...ounts, improperly
...e material to SEFA.
...t have Federal loans or
...SAO.

This is an example of leaving it blank. Instead, response needs to be provided.

Inherent Risk Rating
High

Likelihood Risk Rating
High

Inherent Justification - Provide and explaination to ...   Show more
The process is generally manual and involves the use of judgment.

Likelihood Justification - Provide and explaination t...   Show more

Impact Justification - Provide and explaination to s...   Show more
High - Prior years (or anticipated current year) contained large dollar amounts of adjustments, improperly recorded items would be material to SEFA.

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Risk Assessments Submission

- For each specific risk example, also respond to the following:
  - Risk Response
  - Residual Risk - Provide the rating and justification for the following risks:

This is an example of justification not matching risk rating.

Risk Response
Acceptance

Residual Risk Rating
High

Residual Justification - Provide and explaination to support your residual rating.

NA

Residual Risk - risk remaining after management's

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Risk Assessments Submission

- CFO has to certify they reviewed the exception report and have verified that all control activity utilized responses agree to one of the approved responses.
  - This is needed as currently the software can not limit responses to only the approved ones.

 This means there are no exceptions.

No Report Data
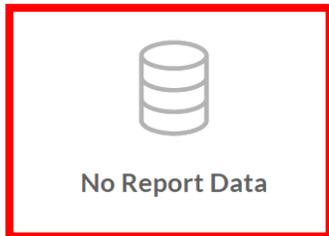
SECTION 3: EXCEPTION REPORT DASHBOARD

CFOs must review the exception report dashboard linked below to verify the risk responses agree to one of the approved responses. If there are items noted on the exception report dashboard, then risk responses must be updated prior to CFO certification. If there are no items to be updated, then click the following box.

Section 3a: Exception Report Dashboard
Section 3a: Exception Dashboard   ⋮

Read only

☑ I certify that I have reviewed the risk responses exception report dashboard and have verified that all risk responses agree to one of the approved responses.   ⋮

Risk Assessments Submission

- Lastly, CFO certifies that the information is accurate.

SECTION 4: CERTIFICATION AND SUBMISSION

CFOs once all aspects of the risk assessment has been carefully reviewed and updated click on the submit button to certify that the information is correct.

Note the assessment will not be completed until the submit button has been selected.

☑ I certify that this information is accurate.

Internal Control – Next Submission

- Yes….. it will be in the same software again.

- Yes….. SAO has heard the complaints of some of the issues, such as:
  - Not requiring all fields to be completed.
  - Not allowing dropdown of only approved responses.
  - But the main one was probably speed/responsiveness.

- Here are some possible options if you encounter speed issues:
  - Use the report view instead of the form view.
  - Export report view and review information and make changes in the excel export version.
    - Software does not allow not re-imports, but you can update only those needed.

Questions

Where to Find Additional Information

- The Green Book is available on GAO's website at:
  - www.gao.gov/greenbook

- SAO's website:
  - http://sao.georgia.gov/internal-controls
  - http://sao.georgia.gov/policies-and-procedures
  - https://sao.georgia.gov/nextgen

- My Contact Information: Rachael.Krizanek@sao.ga.gov or reach out to compliance@sao.ga.gov.