Agenda

- Internal Control Importance

- Internal Controls Next Submission

- Separation of Duties

- Reconciliations

- NextGen

Internal Control Importance

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.

Internal Control Importance

- Importance of your internal control system:

    - Effective internal controls provides reasonable assurance that objectives of the organization will be achieved:
        - Accurate accounting records and financial reports.
            - Remember your accounting records are compiled in to the Statewide financial reports.
        - Accuracy of the Statewide reports are needed to maintain fiscal health of the State.
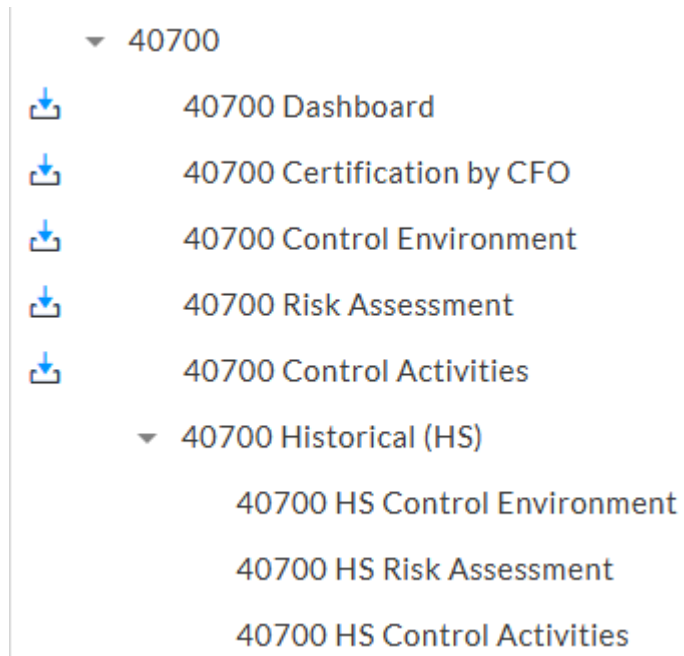   - Helps to reduce fraud and safeguard assets.

Internal Controls - Next Submission

Internal Control – Next Submission

- Control Environment and Risk Assessment/Control Activities:
  - Will be open beginning of April for next submission.

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

  - However, carefully review and update the previous year responses, considering:
    - Any changes needed to response?
    - Is response still valid?
    - Do the responses tie to the specific risk example?
    - Note: should not be any blanks.

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

Internal Control – Navigation

- Submissions will be submitted in Workiva, in slightly different format:

Internal Control – Navigation

Org ID	40700		FY 2024			
Accounting Office, State					Update information in blue highli...	
Org ID	**Principle**	**Attribute #**	**Attribute**	**Does your organization meet this attribute?**	**Describe how your organization meets this attribute**	
				Select from drop-down menu	Type in details	
				Responses provided for all rows	Responses provided for all rows	
A	B	C	D	E	F	
40700	1 - Management and the oversight body demonstrate a commitment to integrity and ethical values.	1.1	Tone at the top	Yes	During new hire orientation, the Human Resources manager informs employees of the State of Georgia Executive Orders relating to code of ethics and sexual harassment prevention for executive branch officers and employees, SAO's agency policies, and Standards of Conduct which outline expected ethica behavior of SAO's employees. The policies are included in the new hire documents provided during the on-boarding process. SAO's Mission and Vision are also discussed during the new hire orientation. The following Vision and Mission statements are displayed on our internet and intranet site: Vision Trusted provider of enterprise business solutions. Mission To be a trusted provider of financial and human capital information and services that champion efficiency, stewardship, and accountability.	
40700	1 - Management and the oversight body demonstrate a commitment to integrity and ethical values.	1.2	Standards of Conduct	Yes	The State Accounting Office Standards of Conduct is discussed in detail with new hires during orientation. By signing the SAO Policy Acknowledgement Statement, new hires acknowledge that they have reviewed the content, requirements, and expectations and agree to abide by the policies listed as a condition of employment. The acknowledgement statement includes the following policies: State of Georgia Ethics Order, Anti-Harassment Policy, Appropriate Use and Monitoring, Equal Employment Opportunity, Drug-Free Workplace, Family Medical Leave, Dress Code, Leave and Attendance, Standards of Conduct, Inclement Weather, Overtime, Remote Connectivity, Working Hours, and Confidentiality. The State Accounting Office Security Policy, Appropriate Use and Monitoring Policy are	

Separation of Duties

What is Separation of Duties?

- Designing control activity (job) responsibilities so that _incompatible duties are separated_.

- _Key preventive control_ for many risk areas, to help reduce errors, misstatement, theft, fraud, etc.

- Management considers the need to _separate control activity responsibilities related to authority, custody, and accounting of operations_ to achieve adequate separation of duties.

- If separation of duties is not practical because of limited personnel or other factors, management designs _alternative control activities to address the risk of fraud, waste, or abuse in the operational process_.

Separation of Duties and GA@WORK

- Designing separation of duties in control activities within GA@WORK as much as possible.

- As business processes are designed:
    - Building in key approvals within the steps.
    - Assigning _roles_ to certain steps of that business process
        - Carefully assigning to not allow _roles_ to be able to perform incompatible duties.

- Need your help to carefully assign _Agency users in to the roles_.
    - Avoid assigning one person in to roles that would allow access to perform incompatible duties.

Separating Key Duties

- Management designs control activities so not one individual controls all aspects of a cycle. Some possible ways to do this could include:
  - Having someone approve or perform the transaction.
    - Having a different person record the transaction.
    - Having a _different person prepare applicable reconciliations_ relating to the transaction.
    - Having a different person prepare any reports relating to the transaction.

- Management designs mitigating control activities if separation of duties is not possible. Some possible ways to do this could include:
  - Having a _different person_ verify the work performed by the first person.
  - Having increased review or supervision by management (not involved in the process).

Disbursement Cycle Steps (including payroll)

- Ideally, one individual should not solely perform _all of_ the following disbursement duties:
  - Creating requisitions or purchase orders,
  - Purchasing goods or services,
  - Receiving items or services,
  - Entering employee time or leave amounts,
  - Creating payroll or benefit transactions,
  - Recording disbursements in the accounting records,
  - Recording adjustments impacting disbursements,
  - Approving disbursements,
  - Payment of disbursement (initiating ACH or paper check, etc.),
  - Performing bank reconciliations, and
  - Creating and Maintaining employee or vendor (supplier) primary file details (payee name, payee address, bank information, etc.).

Key Disbursement Steps to Separate

- If it is not practical to separate all of the above duties, then certain key categories should be separated:
    - Payment and approval
    - Reconciliation and recording
    - Adjustments and recording
    - Maintenance of primary file and recording

Sample Mitigating Controls for Disbursements

- Organization management must implement mitigating controls, if key duties are not separated, such as:
  - Outsourcing or using shared services for certain disbursement steps, such as:
    - SAO's Payroll Shared Services
    - Check printing
    - Vendor maintenance
  - Cross-train employees from other functional departments to perform reconciliations or certain disbursement duties.
  - Routine monitoring via audit logs or other reports of transactions entered and/or processed.
  - Additional supervisory reviews, including review of supporting documentations or transaction logs, reports, data analytics (performance measures, indicators, etc.), and reconciliations.
  - Internal audit reviews.
  - Require employees who are involved in incompatible disbursement duties to take routine time off and/or rotate duties performed.
    - Temporarily remove system access during this time period.

Receipts Cycle Steps

- Ideally, one individual should not solely perform all of the following receipt related duties:
    - Creating bills or processing transactions to be paid to the State,
    - Collecting or receiving receipts,
    - Recording receipts in the accounting records,
    - Recording adjustments or write-offs impacting balances due,
    - Physical security of undeposited receipts (locked in a safe, etc.),
    - Depositing receipts,
    - Enforcement of collections on unpaid amounts,
    - Performing bank reconciliations,
    - Performing reconciliations of individual account balances (subsidiary records) to the control account,
    - Creating or changing banking information, and
    - Maintaining customer primary file details (name, address, bank information, etc.).

Key Receipts Steps to Separate

- If it is not practical to separate all of the above duties, then certain key categories should be separated:
    - Billing and recording
    - Collecting and recording
    - Reconciliation and recording
    - Adjustments and recording
    - Adjustments and collecting
    - Maintenance of primary customer file and recording

Sample Mitigating Controls for Receipts

- Organization management must implement mitigating controls, if key duties are not separated, such as:
  - Outsourcing or using shared services for certain receipts steps, such as:
    - Lockbox
  - Cross-train employees from other functional departments to perform reconciliations or certain receipt related duties.
  - Routine monitoring via audit logs or other reports of transactions entered and/or processed.
  - Additional supervisory reviews, including review of supporting documentations or transaction logs, reports, data analytics (performance measures, indicators, etc.), and reconciliations.
  - Internal audit reviews.
  - Require employees who are involved in incompatible receipt related duties to take routine time off and/or rotate duties performed.
    - Temporarily remove system access during this time period.

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:
    - Bank Reconciliation – comparing amount of cash in accounting records to bank cash balance.

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

    - Clearing Account Reconciliation – reconciling amounts in the clearing account (which accumulates transactions which are later distributed to appropriate accounts.
        - Note: in GA@WORK use of clearing accounts will be very limited, if at all.

Why are Reconciliations so Important?

- Reconciliations are the most important detective control activity that:
  - Confirm that transactions are being _processed, recorded, and accounted for completely and accurately_.
  - Determine whether the transactions are _recorded properly_, have yet to be recorded, or were recorded improperly and require correction.
  - Serve to identify _unauthorized transactions and explain differences_.

  …… essentially help to support the accuracy of the accounting records and ultimately lead to more reliable financial reports (including Statewide reports).

Bank Reconciliation Steps

- Necessary steps that _must be_ done during the bank reconciliation process:
  - Verify ending bank balance agrees to balance per the accounting records (for the same date)

  - If the balances 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 in the general ledger)

- 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 Account Reconciliation Steps

- Necessary steps that _must be_ done during the control account reconciliation process:
  - Verify the general ledger control account amount (ex: accounts receivable or accounts payable) agrees to the sum total of amounts in subsidiary ledger (ex: customer accounts or benefit payees).

  - If the balances do not agree determine the reasons for differing amounts, such as:
    - Unrecorded transactions
    - Different amounts recorded/posted
    - Timing differences between systems
    - Errors in calculations or integrations

Clearing Account Reconciliation

- Clearing accounts should zero out, by fund type, and any differences should be followed up on. These 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.

- Note: in GA@WORK use of clearing accounts will be very limited, if at all.

Actual Clearing Account Differences

Type	FY22	FY23	FY24	Grand Total
Agency A Specific Total	$ (1,497,258.41)	$ (1,497,258.41)	$ (1,497,258.41)	$ (4,491,775.23)
Cash Total	$ -	$ (498.00)	$ (498.00)	$ (996.00)
Clearing Acct 1-20 Total	$ (89,621,386.86)	$ (264,060,518.26)	$ (87,174,854.09)	$ (440,856,759.21)
Agency B Specific Total	$ (0.02)	$ -	$ (0.00)	$ (0.02)
Agency C SpecificTotal	$ (589,203.68)	$ (589,203.68)	$ (589,203.68)	$ (1,767,611.04)
Agency D Specific Total	$ 43,295,594.96	$ 22,019,528.09	$ 22,079,228.75	$ 87,394,351.80
Agency E Specific Total	$ (117,022,174.70)	$ (9,126,344.75)	$ (22,134,570.27)	$ (148,283,089.72)
Payroll Total	$ (114,222.11)	$ 1,683.67	$ (38,702.32)	$ (151,240.76)
State Allot Total	$ (160,902,361.98)	$ (82,163,893.99)	$ (81,591,372.03)	$ (324,657,628.00)
Travel Advances Total	$ 106,435.68	$ 29,792.01	$ 65,370.98	$ 201,598.67
Grand Total	**$ (326,344,577.12)**	**$ (335,386,713.32)**	**$ (170,881,859.07)**	**$ (832,613,149.51)**

Reconciling Items Impact

- What are the impacts of not researching and resolving reconciling items in the various reconciliations?

    - The reconciliation is _not actually complete_.

    - Errors in the accounting records are not discovered and corrected timely, such as:
        - Transactions not recorded.
        - Amounts not recorded at the correct amount.
        - Amounts recorded but the transaction did not actually occur.

    - Fraud occurring that is not being detected (or not detected timely).

    - Impact to audit opinions on financial statements (including Statewide reports).

    - Audit Findings.

    - Outstanding checks not turned over as unclaimed property timely.

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 GA@WORK.

Don't want these headlines

SAO

U.S. NEWS

$1.8 billion isn't missing after all in South Carolina but questions remain about accounting error

COLUMBIA, S.C. (AP) — It turns out that $1.8 billion in South Carolina state funds weren't just sitting in a bank account waiting to be spent. Instead, it was an accounting error compounded over years instead of being reconciled, an independent forensic audit determined.

In a separate case, the elected Republican comptroller general — the state's top accountant — resigned in 2023 after his agency started double-posting the amount the state had sent to colleges and universities for a decade, leading to a different $3.5 billion error that also was all on paper.

The problems with the $1.8 billion error started as the state changed computer systems in the 2010s. Grooms said the initial mistake happened when Loftis, whose job is to write checks for the state, shifted accounts from the old system to the new one.

NextGen

NextGen

- Be on the look out communication relating to GA@WORK electronic invoices (cxml) demo coming.
    - Used only for punchout, state-wide contract suppliers.

- Third party systems data.
    - Continue to be on the look out for any systems outside of the ERP that are using data exported or imported.
    - In GA@WORK, different types of transactions will have distinct upload files ("flat file" equivalent including different types of transactions will not be an option).

- Record retention.
    - SAO will be reaching out for additional record retentions longer than State archives requirements.

NextGen

- Accounting for Company paid travel items.
  - In GA@WORK, will be eliminating use of clearing accounts.

- Testing outcomes.
  - Thanks for all of the participation during testing.

- Vendor/Supplier data cleanup.
  - Performing verifications of current vendor information prior to bringing them in to GA@WORK.
  - Similar notification just went out to suppliers to review their contact information, etc.

- GA@WORK bank reconciliations.
  - Right at go-live will need information from the bank of outstanding items (will be short timeframe), to allow ability to do automatic bank reconciliations in GA@WORK.
  - General ledger activity will need to be recorded at the same level of detail as occurs in the bank account.

Questions?