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Wealth Management.

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Colorado Government Finance Officers Association

Internal Control Best Practices for Smaller Organizations



Introduction



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Plante Moran Governmental Practice



500+

Governmental Clients

750+

ACFR audits receiving GFOA's Certificate of Achievement for Excellence in Financial Reporting

250+

Staff dedicated to serving governmental clients

75

Years serving government clients



Best Accounting Firm

As ranked by ColoradoBiz magazine in its 2021 Best of Colorado Business Choice awards

Slide 3

AK0 Change to CO, describe practice in bio
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PMGAP Services



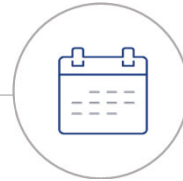
Audit Preparation

- Perform annual year-end close of accounting records
- Audit workpaper preparation
- Audit process facilitation
- External compliance reporting
- Deficit elimination plan creation
- New GASB implementation



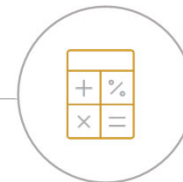
Budget

- Historical budget analysis
- Community education
- Budget process facilitation
- Budget renovation
- Budget document creation
- Budget monitoring and periodic internal reporting
- Budget amendment creation



Controllership

- Preparation of monthly bank reconciliations
- Monthly accounting reconciliations
- Perform month-end close of accounting records



Business process evaluation and transformation

Cash flow analysis and management

Chart of accounts redesign

Utility rate setting

Accounting functions: accounts payable, accounts receivable, payroll

Other special projects



Learning Objectives

Participants will be able to:

- Describe risk management and internal control frameworks
- Identify internal control challenges unique to small organizations
- Develop solutions to internal control challenges in small organizations



Agenda

1. Risk Fundamentals
2. Overview of Internal Controls
3. Internal Controls in Small Organizations
4. Q&A

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Update

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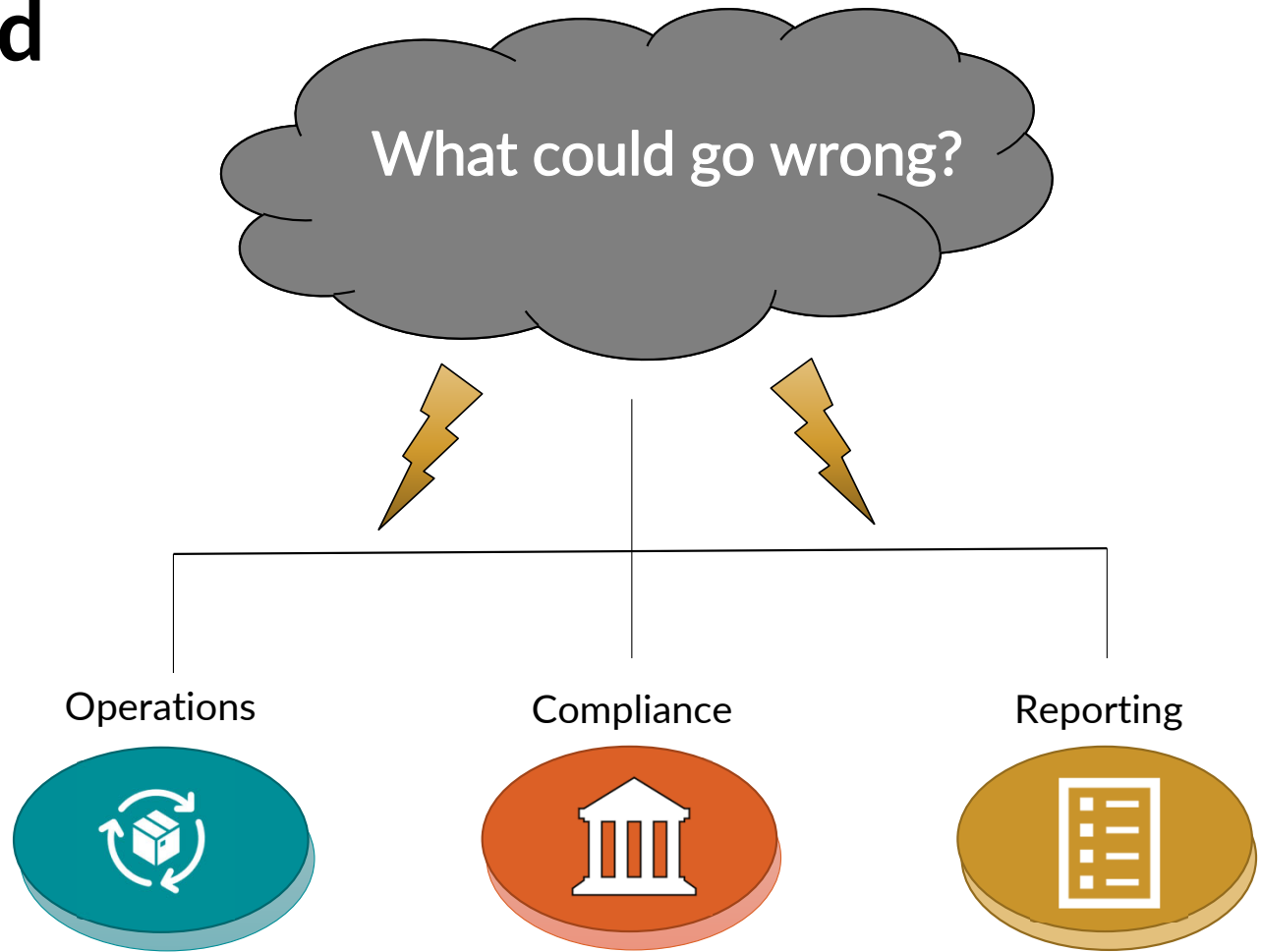


Risk Fundamentals



Risk Defined

An event impacting the achievement of the organization's objectives relating to operations, reporting and compliance





Risk Defined



Inherent risk

The impact occurring **before** consideration of mitigating controls or circumstances



Mitigating activities

The internal controls in place to increase probability of desired outcome



Residual risk

Level of assumed risk **after** consideration of mitigating controls



Risk Mitigation Strategies



Avoid

Management does not engage in this risk area



Accept

Management accepts the risks in this risk area



Transfer

Management allocates a portion of this risk to a third party



Reduce

Management implements various activities and internal controls to reduce the risk



Internal Control Overview



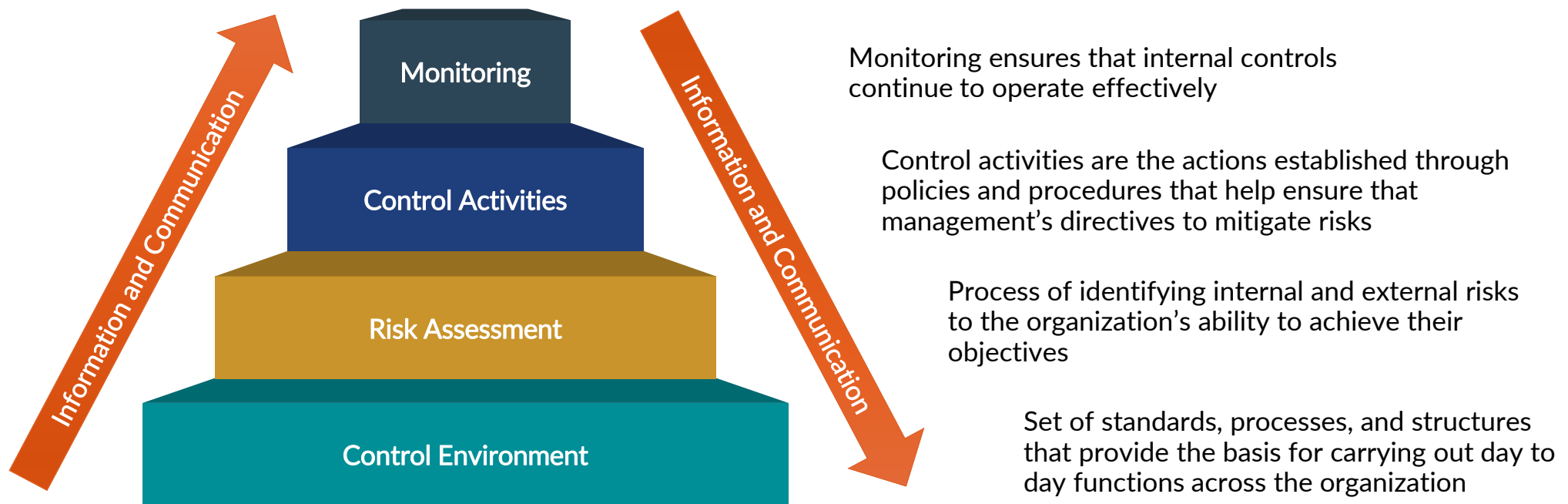
Importance of Internal Controls

- ① Minimize opportunities for errors and omissions
- ② Identify small issues before they aggregate into big problems
- ③ Reduce the risk of intentional fraud

Trust is not an internal control!

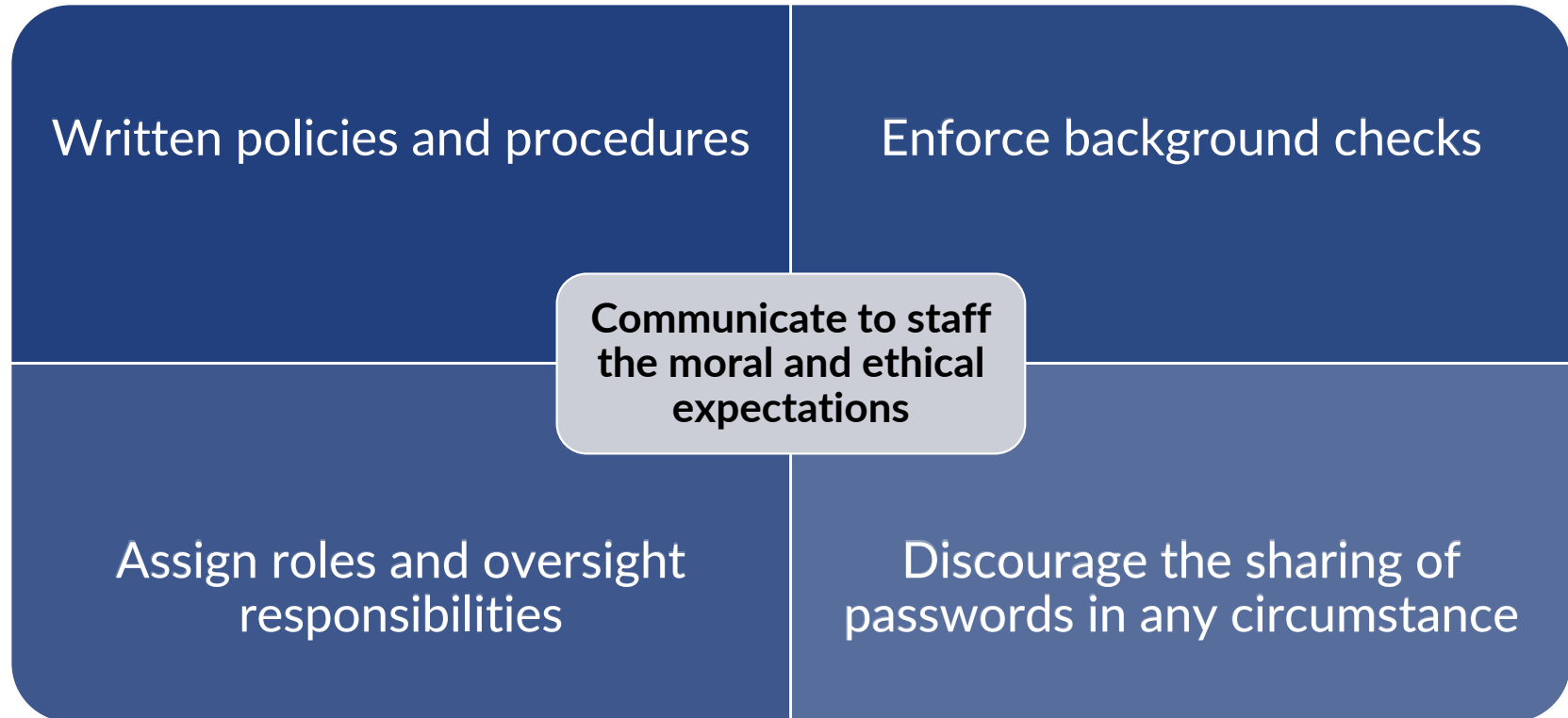


Internal Control Framework





Control Environment





Control Environment

Goal: Create an environment with professional integrity

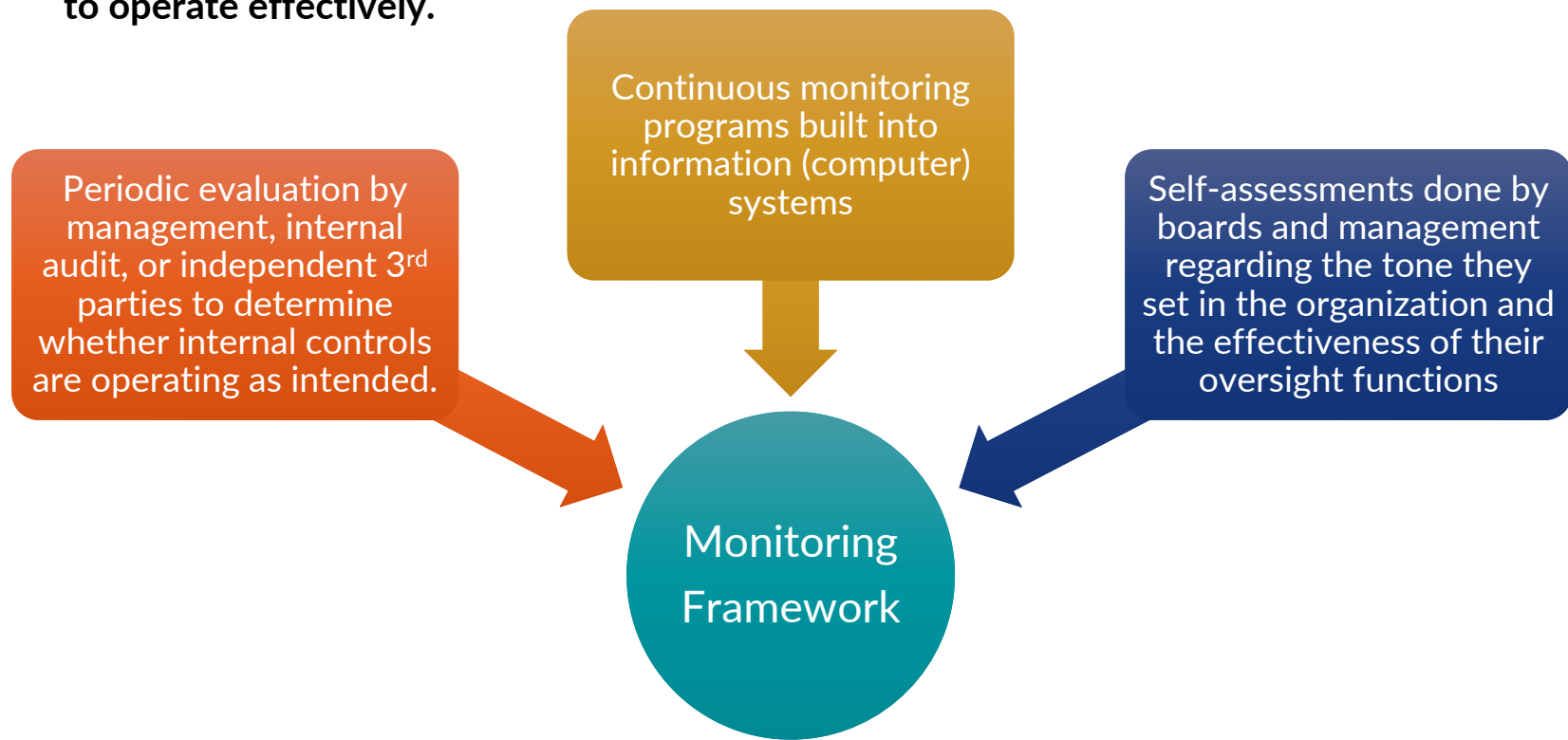
- Incorporate risk thinking into day-to-day business operations
- Shift the cultural mindset related to accountability and risk awareness





Monitoring

Controls tend to deteriorate over time. Monitoring helps ensure that internal controls continue to operate effectively.





Audience Question:

What are some current challenges your own organization is facing when implementing internal controls?



Internal Control Activities



Types of Internal Controls

Preventative

Keep errors or irregularities from occurring

- ✓ Policies & procedures
- ✓ Segregation of duties
- ✓ Training
- ✓ System access
- ✓ Physical controls

Detective

Identify errors/irregularities after occurrence

- ✓ Account Reconciliations
- ✓ Management review
- ✓ Journal entry review
- ✓ Confirmations
- ✓ Performance reviews

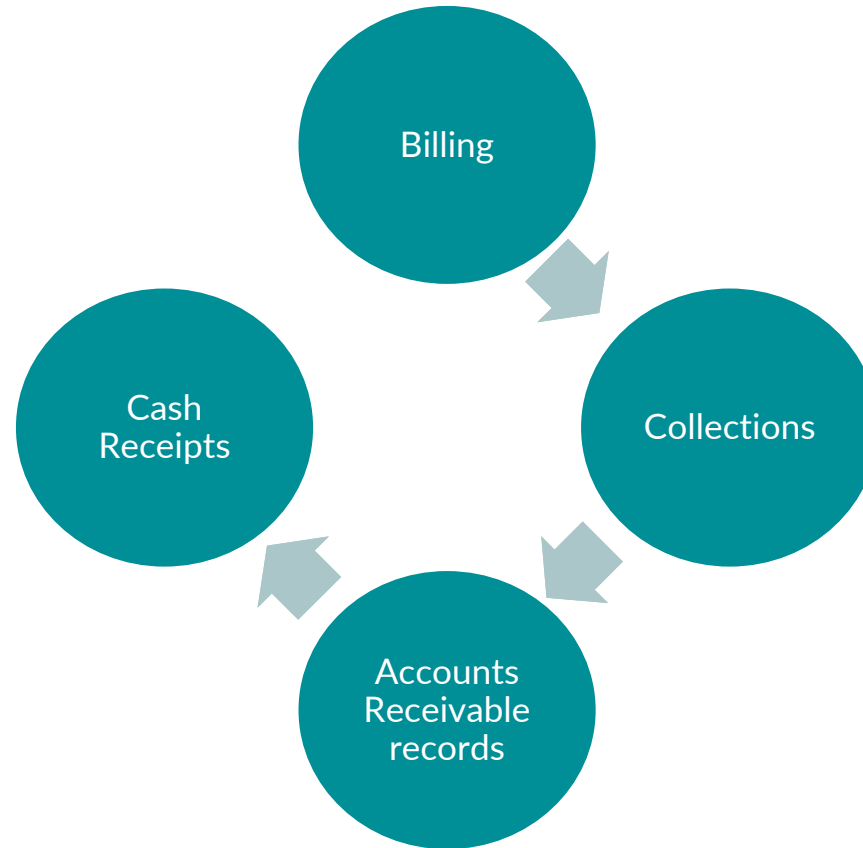
Corrective

Prevent recurrence of errors, remedy errors

- ✓ Disciplinary action
- ✓ Maintaining backup copies and master files



Revenue Cycle Controls





Revenue Cycle Controls

Risks:

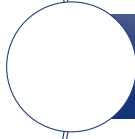


- Misstatement of revenue
- Inaccurate billing
- Loss or theft of assets

Common Controls:



Billing : Ensure a second set of eyes on prepared bills prior to sending to customer



Accounting (A/R): Non-preparer of accounting entries reviews detailed ledger against customer account summary each month.



Cash Receipt: Non-preparer of bank reconciliations/accounting entries, accurately logs and deposits customer payments



Revenue Cycle Controls

Small Government Billing and Cash Receipts Example:

	One person accounting dept	Two person accounting dept
Prepare bills based on customer account summary	Finance Director	Finance Director
Compare customer account summary to prepared bills	Chief Executive	Chief Executive
Open remittance	Chief Executive	Chief Executive
Prepare daily collection log	Chief Executive	Chief Executive or Finance Director
Prepare deposit slip	Finance Director	Accounting Staff
Make deposit	Chief Executive	Finance Director
Compare collection log and deposit documentation	Finance Director	Chief Executive or Accounting Staff



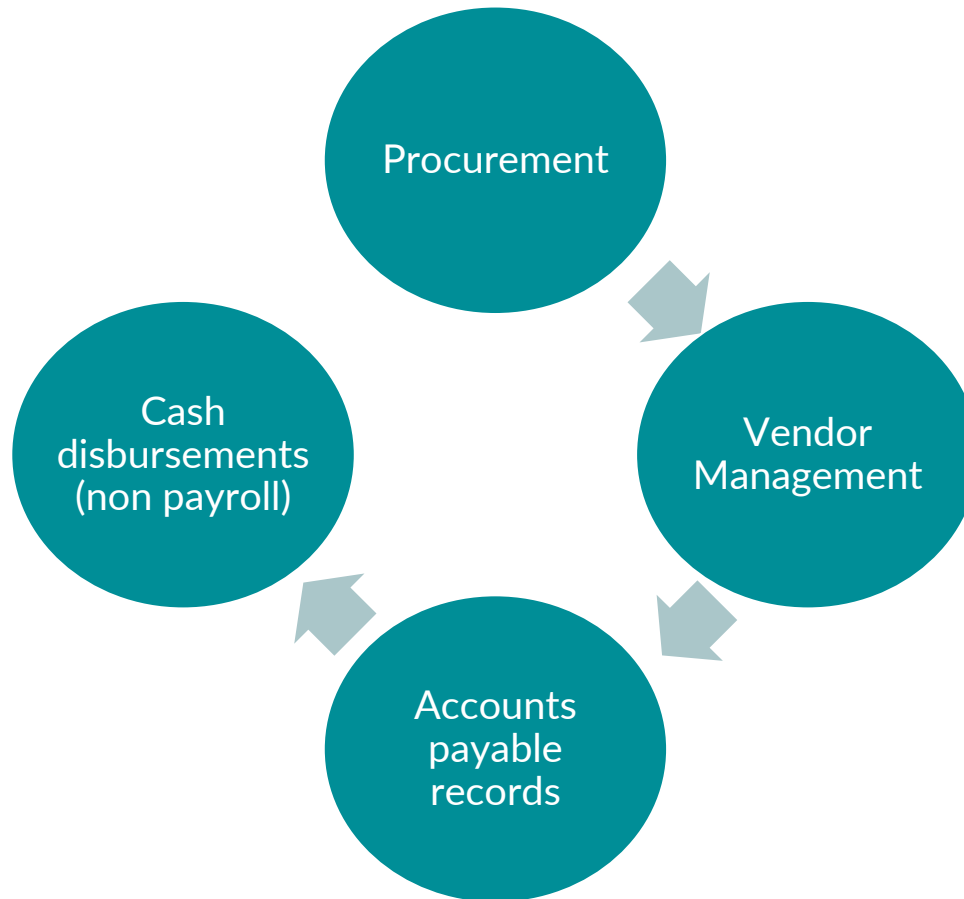
Revenue Cycle Controls

Small Government A/R Example:

	One person accounting dept	Two person accounting dept
Record deposits in ledger	Finance Director	Accounting Staff
Review detailed ledger against collection log and customer summary each month	Chief Executive	Chief Executive or Finance Director
Review delinquent accounts each month	Chief Executive	Chief Executive or Accounting Staff
Follow through with collection efforts	Chief Executive	Accounting Staff



Expenditure Cycle Controls





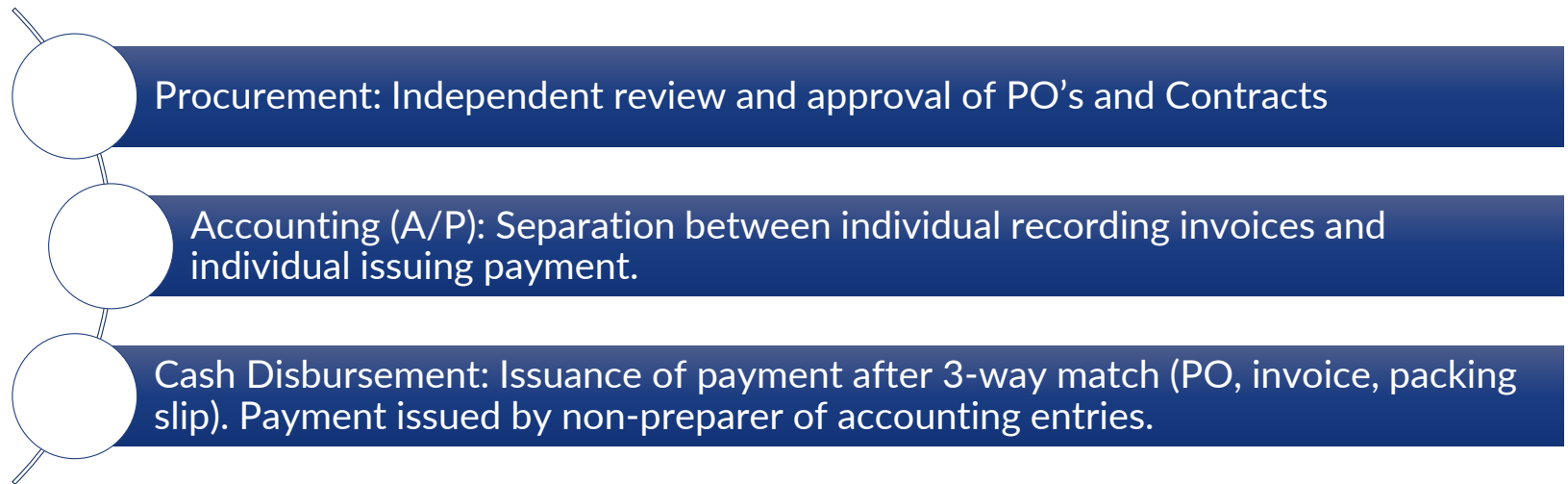
Expenditure Cycle Controls

Risks:



- Misstatement of expense and/or accounts payable
- Loss or theft of assets

Common Controls:





Expenditure Cycle Controls

Small Government Procurement and A/P Example:

	One person accounting dept	Two-person accounting dept
Determine the solicitation process based on policies, procedures, applicable regulations	Finance Director	Finance Director
Collect vendor paperwork and enter vendor into payment system	Chief Executive or council member	Accounting Staff
Issue purchase order or contract in compliance with applicable policies/procedures/regulations	Finance Director	Accounting Staff
Review and approve PO or Contract	Chief Executive	Finance Director
Receive/Open Invoice	Chief Executive	Finance Director
Perform a 3-way match between the purchase order, packing slip, and vendor invoice	Chief Executive	Finance Director



Expenditure Cycle Controls

Small Government Cash Disbursement (non-payroll) Example:

	One person accounting dept	Two-person accounting dept
Review documentation, prepare and sign check	Finance Director	N/A
Review documentation and prepare check	N/A	Accounting Staff
Review documentation and sign check	N/A	Finance Director
Second check signer reviews documentation and signs check	Chief Executive	Chief Executive
Mail Check	Chief Executive	Accounting Staff



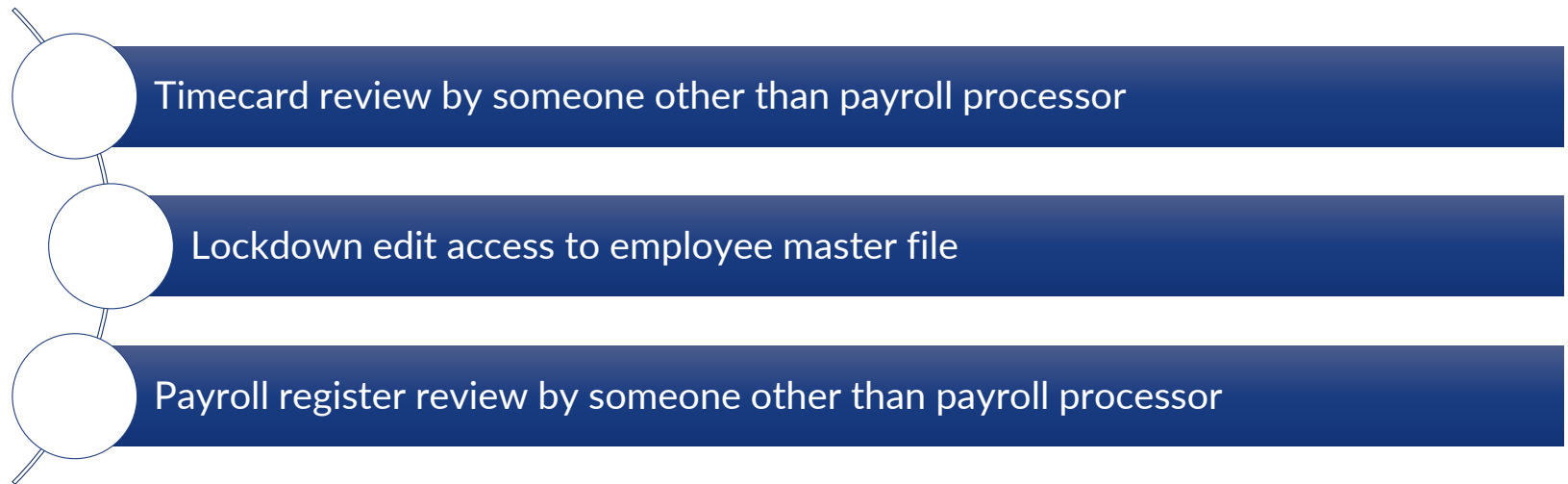
Payroll Controls

Risks:



- Inaccurate pay is issued
- Unauthorized pay is issued
- Fraudulent diversion of employee pay

Common Controls:





Payroll Controls

Small Government Payroll Example (assumes finance and HR are combined):

	One person accounting dept	Two-person accounting dept
Maintain personnel files	Finance Director	Finance Director
Review and approve time sheets (if applicable) and leave records	Employee supervisor	Employee supervisor
Review payroll summary for reasonableness	Finance Director	Accounting Staff and HR
Prepare checks or direct deposit, reconcile payments to payroll summary. Sign checks.	Finance Director	Finance Director
Review payroll summary and payments. Sign and distribute checks or approve direct deposit	Chief Executive	Chief Executive



Banking Controls

- Utilize only banking institutions as approved by Governing Body Resolution
- Update bank signers as quickly as possible when turnover occurs
- Setup automatic notifications for transactions over a certain threshold
- Utilize multi-factor authentication
- Don't use debit cards (use p-cards instead)
- Reconcile all bank accounts timely. Ensure a "second set of eyes" on all bank statements separate from the person completing the bank reconciliations
- Consider who has ability to create vendors within the system, access to check stock, ability to post journal entries, banking rights, etc.



Banking Controls

Small Government Banking Example:

	One person accounting dept	Two-person accounting dept
Open bank statements, or download from online banking	Finance Director and Chief Executive	Finance Director and Chief Executive
Send bank statements for reconciling	N/A	Finance Director
Reconcile Bank Statements	Finance Director	Accounting Staff
Detail line item review of bank reconciliations and bank statements (accessed independently*) each month	Chief Executive	Finance Director and Chief Executive
Roles:		
Bank account signer	Finance Director and Chief Executive	Finance Director and Chief Executive
Wire transfers under threshold	Finance Director	Finance Director
Wire transfers above threshold	Chief Executive	Chief Executive



Asset controls

- Label and track inventory and physical assets, ensuring those purchased with federal funds are labeled as such
- Secure highly desirable and highly portable assets with physical barriers such as locked cabinets
- Physical inventory counts should be made once a year at a minimum. The count should be made by an independent staff member(s).
- Track capital assets and ensure disposition and/or depreciation is accurately calculated and recognized in accounting records



Financial Reporting Controls

- Compare actual revenue and expenses to budget
- Independent approval of all manual journal entries
- Independent cross check between bank reconciliation, check register, and bank statement
- Reconcile balance sheet accounts timely
- Approve all additions and modifications to the chart of accounts
- Ensure account system access is limited and appropriate for the role



Internal Control Support

- Establishes organization structure with defined roles and responsibilities
- Establishes formal policies and procedures that outline controls
- Hires individuals with appropriate skills and knowledge to assume specific roles and responsibilities outlined in the organizational structure
- Leaves “Paper-trail” for monitoring by management



Audience Poll

What of the following solutions discussed in today's session will you consider implementing in your organization?



Questions?



Thank You!