

***CITY OF NORFOLK
OFFICE OF THE CITY AUDITOR***

PRESENTS:



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INTERNAL CONTROLS



AGENDA

- Define Internal Controls
- Why are they necessary
- Define the COSO Internal Controls Framework
 - Control Environment
 - Risk Assessment
 - Control Activities
 - Information and Communication
 - Monitoring



The COSO* Definition of Internal Control

Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

* Committee of Sponsoring Organizations of the Treadway Commission

Internal Controls “Everyday Practices”



What do you worry
about going wrong?

What steps have been taken
to assure it doesn't happen?

How do you know
things are under control?

Simple Definition-Internal controls are all around us ...

Setting alarm systems



Locking up vehicles and homes



Maintaining copies of important documents
(receipts, tax returns, vital records)

Maintaining
household
budgets



Balancing
your
checkbook



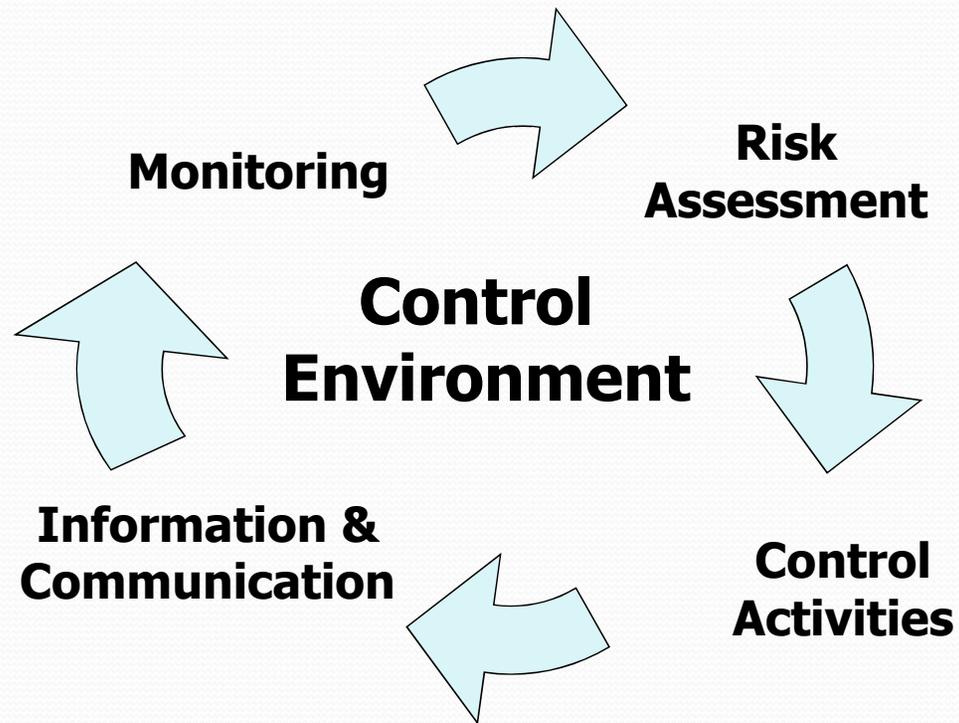


Why are Internal Controls Necessary?

- It is a means by which an organization's resources are directed, monitored, and measured.
- It plays an important role in detecting and preventing fraud and protecting the organization's resources, both physical and intangible assets.
- At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals and objectives, effectiveness and efficiency of operation, and compliance with laws and regulations.

COSO'S Internal Control Framework...

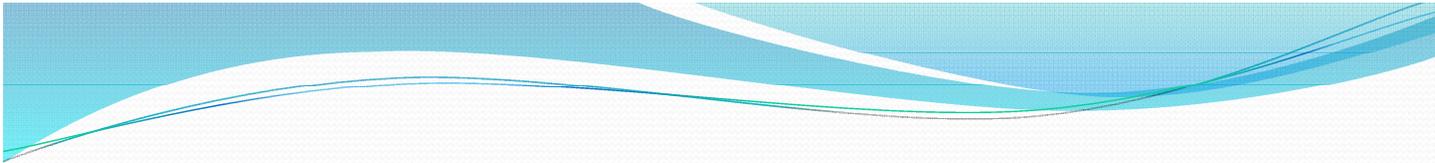
Five Inter-Related Standards:





Control Environment

- Foundation for all other standards of internal control.
- Pervasive influence on all the decisions and activities of an organization.
- Effective organizations set a positive “**tone at the top**”.
- Factors include the integrity, ethical values and competence of employees, and management’s philosophy and operating style.



CONTROL ENVIRONMENT SCENARIO

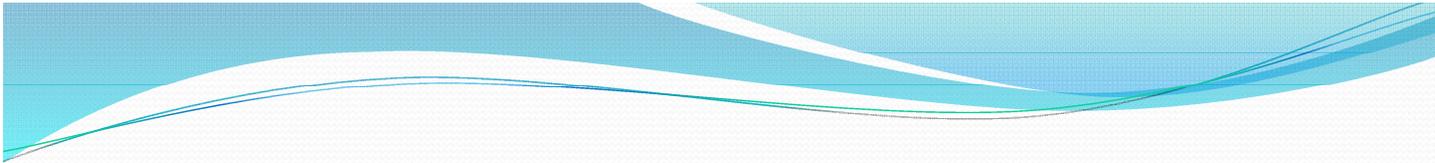
Feed Me is a non-profit organization that feeds the homeless in the community. Bill is the Executive Director of Feed Me and receives funding from the City of Norfolk to purchase food in bulk. Bill was planning a big family reunion for the holiday and decided to include the food for the event in the next purchase order. When the food arrived, Bill loaded the items he purchased for his event into his van. Does Bill have a good control environment for his organization?

Answer: No, there is a lack of Integrity and Ethical Values



Risk Assessment

- Risks are internal & external events (economic conditions, staffing changes, new systems, regulatory changes, natural disasters, etc.) that threaten the accomplishment of objectives.
- Risk assessment is the process of identifying, evaluating, and deciding how to manage these events... *What is the likelihood of the event occurring? What would be the impact if it were to occur? What can we do to prevent or reduce the risk?*



RISK ASSESSMENT SCENARIO

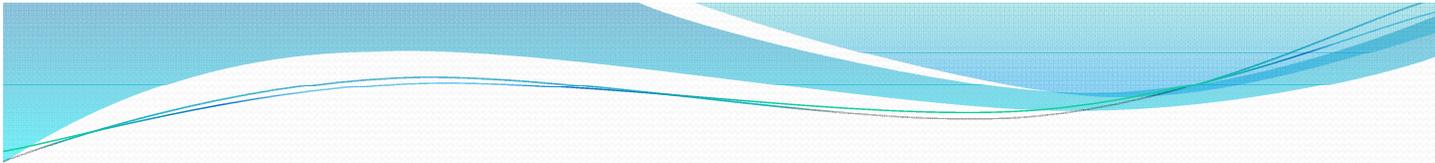
Feed Me just purchased a new computer system that will allow them to maintain electronic records. Their current records are being retained in a file cabinet. Should Bill destroy the records in file cabinet immediately after the implementation of the new system?

Answer: No, Bill should conduct a risk assessment and determine how long he needs to retain the manual documents, evaluate back-up capabilities, and establish a business continuity plan.



Control Activities

- Tools - policies, procedures, processes - designed and implemented to help ensure that management directives are carried out.
- Help prevent or reduce the risks that can impede the accomplishment of objectives.
- Occur throughout the organization, at all levels, and in all functions.
- Include approvals, authorizations, verifications, reconciliations, security of assets, reviews of operating performance, and segregation of duties.



CONTROL ACTIVITIES SCENARIO

Bill, Executive Director of Feed Me has an organization with three other employees: Administrative Assistant, Purchasing Officer, and an Accountant. The Purchasing Officer creates purchase orders, buys supplies, signs the delivery receipts, maintains inventory, and approves invoices for payments. What control activities are missing?

- A. Authorization
- B. Segregation of Duties
- C. Review of Operating Performance

Answer: A and B



Communication & Information

- Pertinent information must be captured, identified, and communicated on a timely basis.
- Effective information and communication systems enable the organization's employees to exchange the information needed to conduct, manage, and control its operations.

EXAMPLES OF COMMUNICATION AND INFORMATION

- Effective communication of organization policies and procedures
- Maintain and submit proper documentation for reimbursement
- Inform the city of organizational changes
 - Executive Directors
 - Objectives
 - Participant Levels
- Timely submission of reports



Monitoring

- Internal control systems must be monitored to assess their effectiveness... *Are they operating as intended?*
- Ongoing monitoring is necessary to react dynamically to changing conditions... *Have controls become outdated, redundant, or obsolete?*
- Monitoring occurs in the course of everyday operations; it includes regular management and supervisory activities and other actions of personnel while performing their duties.



Are Strong Internal Controls Beneficial to Your Organization

YES

- Improve compliance with laws, regulations, and grant agreements
- Help organization achieve performance and budget targets
- Prevent loss of resources and public assets
- Prevent loss of public trust
- Improve accountability to customers (participants, federal, state, and local government)
- Protect resources against waste, fraud, and inefficiencies
- Improve reliability of financial reporting



MOST IMPORTANTLY

**STRONG INTERNAL
CONTROLS**

prevent, deter, and detect
occurrences to keep someone
from:

“JAIL”



Always keep in mind: “ Do The Right Thing”



QUESTIONS??