



# Presentation to the Nature Coast Chapter FGFOA

## Internal Controls Framework and Financial Reporting

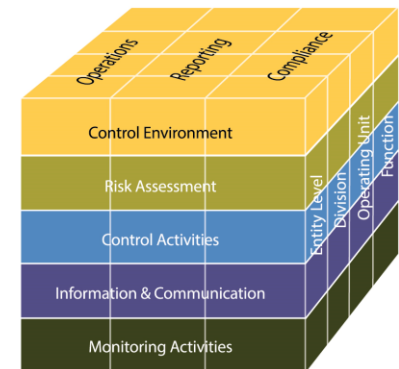
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# Internal Control – A Framework

# What is COSO and what is internal control?

- The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of the five private sector organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.
- Internal control, as defined by COSO in its Internal Control—Integrated Framework (2013), 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 relating to operations, reporting, and compliance.”
- Effective internal control is an integral part of an organization’s governance system and ability to manage risk.



Source: <http://www.coso.org/>

# What is an Internal Control?

- Internal control is a process.
  - Dynamic – ongoing and active
  - Iterative

Each process is defined and implemented by a set of policies and procedures- a series of ongoing actions and activities that occur throughout the organization.

- Policies reflect management or board statements of what should be done to effect internal control.
  - Such statements may be documented
  - Explicitly stated in other management communications
  - Implied through management actions and decisions.
- Procedures consist of actions that implement a policy – actions should be described in writing, and this written documentation typically results in the formation of a policy.
  - These are actions that permeate an entity's activities and that are inherent in the way management operates the entity.

Source: <http://www.coso.org/>

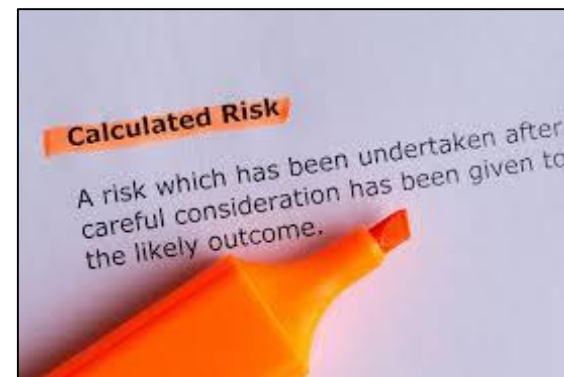
# What is Risk?

When working toward its objectives, every organization faces a wide range of uncertain internal and external factors – Risks.

**The effect of this uncertainty on the organization's objectives is called risk, which can be either positive, representing opportunity, or negative, representing a threat.**

Risk should always be assessed in light of setting and achieving your organization's objectives. If there are no objectives, there is no risk.

This risk assessment process is both dynamic and iterative.



# What is Risk Management

- After assessing relevant risks, and depending on the organization's risk appetite or limits for taking risks, management can determine how best to manage these risks.
  - In some cases, the risk response may be acceptance—that is, taking no action apart from monitoring the changes in risk.
    - avoidance—not participating in or exiting the activities giving rise to a given risk;
    - reduction— removing the source, changing the likelihood, or changing the nature, magnitude, or duration of the consequences of a given risk;
    - sharing—transferring a portion of the risk via insurance, hedging, a joint venture, or other technique.

## Proper risk management

- Enables organizations to make informed decisions about the level of risk you want to retain and implementation of the necessary controls.
- Helps organizations understand the risks they are exposed to, put controls in place to counter threats, and effectively pursue their objectives.

Source: <http://www.coso.org/>

# Purpose of Internal Control

A process that is created which attempts to prevent or minimize the possibility of accounting errors, irregularities, and illegal acts. In effect....To minimize Waste, Abuse and Fraud.

## **Minimize Waste:**

- Significant loss or misuse of resources that results from deficient or negligent practices, controls, or decisions.
- Waste involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances. Waste does not necessarily involve fraud or other violations of law.

## **Minimize Abuse:**

- Grossly intentional, wrongful, or improper use of resources or misuse of rank, position, or authority.
- Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances. Abuse does not necessarily involve fraud or other violations of law.

Source: <http://www.coso.org/>

# Purpose of Internal Control

**Minimize Fraud:** Generally defined in the law as an intentional act to deceive or cheat, ordinarily for the purpose or result of causing a detriment to another and/or bringing about some benefit to oneself or others.

- Pressure – this is the motivation for the crime.
  - Typically a financial problem without sufficient legitimate means to solve.
  - Consider committing an illegal act to solve the problem
  - Can be a personal (debt) or professional (job is in jeopardy) problem
- Opportunity – the method in which the crime can be committed.
  - The person has determined a way to use (abuse) his position of trust to solve his financial problem
  - Perceived low risk of getting caught (problem solved in secret)
  - Many times white collar crime is committed to maintain social status (beware of red flags)
- Rationalization– “I’m not a criminal”.
  - Vast majority of fraudsters are first time offenders and have no criminal past
  - See themselves as ordinary, honest people with a bad set of circumstances
    - I was only borrowing the money
    - I was entitled to the money
    - I was underpaid, my employer cheated me



Source: Donald R. Cressey, *Other People's Money* (Montclair: Patterson Smith, 1973) p. 30.



# Benefits and Costs of Internal Controls

- Internal Controls provide a several benefits
  - Provides management and elected officials with confidence to achieve objectives
  - Provides the opportunity for feedback on functions - performance measurement, annual reviews
  - Ability to meet requirements that create the opportunity for access to capital markets (debt policy)
  - Reliable reporting supports management and board decisions for resource deployment
  - Increased ability and confidence to communicate performance
  - Consistent mechanism for processing transactions
    - Higher efficiency and accuracy
- Enhanced efficiency results in a better design and enhanced implementation in conducting a system of internal controls
  - Primarily by understanding the importance of specifying suitable objectives and the risks and controls that are most important to achieving these objectives
  - Coordinating efforts for identifying and assessing risks across multiple objectives may reduce the number of controls that may be redundant, or in some cases unnecessary

# Benefits and Costs of Internal Controls

- Internal controls have direct and indirect costs
  - Trade off of recruiting and retaining more experienced and/or those with higher competency and the related higher compensation costs.
  - Costs associated with assessing the efforts to select develop and perform control activities
  - Efforts that add to the overall process
  - Efforts to maintain and update the control process
  - Costs of added technology – not just the technology itself
  - Cost of additional information requirements and the collection, storage and access

# Documentation for Internal Controls

- Internal Control documentation is important for several reasons
  - Provides clarity regarding roles and responsibilities
    - Promotes consistency in the procedures and adherence to the policy
  - Assists in capturing the design of the internal control, communicates the 5Ws
  - Establishes standards and expectations of performance
  - Provides evidence of the processes and procedures in place
  - Enables proper monitoring
  - Supports effective reporting
    - This is important for external auditing
  - Documentation allows an organization to retain knowledge rather than the this information being “stored” in an employee’s head

# Categories of Internal Controls

- Preventive Controls – Preventive controls are designed to keep errors or irregularities from occurring. Many of these controls are **based on the concept of segregation of duties**. No employee should be in a position to both perpetrate and conceal errors or fraud in the normal course of their duties. An employee who is responsible for approving transactions should not be the one who also records the transaction or maintains the custody of the asset.
- Detective Controls – Detective controls are **designed to identify errors or irregularities that already exist**. They are implemented to ensure that the preventive controls are working effectively. Examples include monthly reconciliations of bank accounts, conducting physical inventory counts and internal or external audits.
- Monitoring Controls – Monitoring controls ensure that internal controls continue to operate effectively over time. When implemented, a company will be able to identify and correct problems on a timely basis, and produce more accurate financial information and timely financial statements. Examples of **monitoring procedures include periodic evaluation of internal controls**, follow-up on anomalies identified in operating reports or metrics and supervisory reviews of reconciliations.

Source: <http://www.coso.org/>

# Objectives of Internal Control

- Protection of financial and physical assets
- Reliable financial reporting
  - Timeframes should be set for each report (daily/monthly/annually)
  - Procedures established to ensure accuracy
- Efficient Operations
  - Eliminate redundant operations
  - Utilize technology when available to reduce time (cost)
- Legal Compliance
  - Identify applicable laws and confirm compliance

Source: <http://www.coso.org/>

# Internal Controls – Who is Responsible?

- Management and the Board is responsible for making sure that the right controls are in place, and that they are performing as intended.
- The governing board's responsibilities for internal controls primarily involve oversight, authorization and ethical leadership.
- The governing board relies upon management, to create the policies needed to ensure that services are provided effectively and assets safeguarded.
- Senior Management relies upon managers and department heads to recommend and implement procedures that lower identified risks.

Source: <http://www.coso.org/>

# Internal Controls – Who is Responsible?

- External auditors are not responsible for an entity's internal controls. External auditors evaluate internal controls as part of their audit planning process, but they are not responsible for the design and effectiveness of your controls.
- Management provides the leadership needed to establish and guide an integrated internal control framework. Effectively establishing a positive “tone at the top” by conducting an organization's affairs in an honest and ethical manner and establishing accountability at all levels of the organization. If management does not demonstrate strong support for internal controls, the organization as a whole will be unlikely to practice good internal controls.

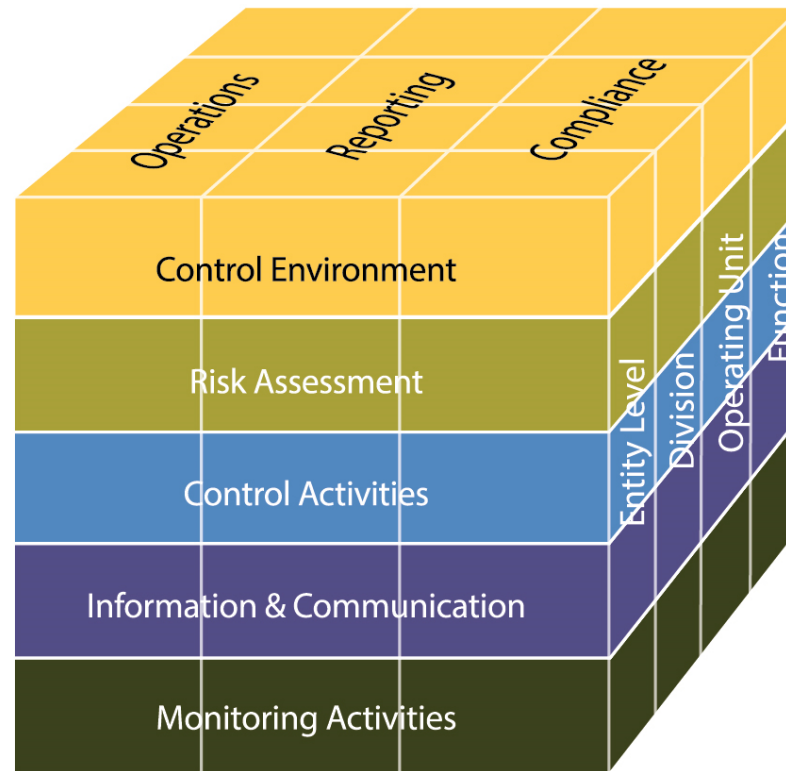
Source: <http://www.coso.org/>

# Internal Control a Framework



# Components of Internal Control Framework

- Internal control, as defined by COSO in its Internal Control—Integrated Framework (2013), 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 relating to operations, reporting, and compliance.”



Source: <http://www.coso.org/>

# Common Objectives of Internal Control

## Operations Objectives

- Operations objectives relate to the achievement of an entity's basic mission and vision—the fundamental reason for its existence. These objectives vary based on management's choices relating to the management operating model, industry considerations, and performance.
  - improving financial performance, productivity (e.g., avoiding waste and rework), quality, environmental practices, innovation, and customer and employee satisfaction.
  - A governmental agency may focus on achieving the mission established by the legislature or governing body
    - operations objectives that are not well conceived or clearly specified, its resources may be misdirected
- The operations category of objectives includes safeguarding of assets.
  - An entity may set objectives relating to the prevention of loss of assets and the timely detection and reporting of any such losses.
  - These objectives form the basis of assessing risk relating to safeguarding of assets and selecting and developing controls needed to mitigate such risk.

Source: <http://www.coso.org/>

# City of Orlando Mission Statement

## City of Orlando Office of Business and Financial Services

### Mission Statement

The mission of the Office of Business & Financial Services is to **safeguard the assets and manage the financial affairs of the City** including revenue collection, real estate, cash disbursements, accounting and financial reporting, investments, debt management and risk management. To **maintain reasonable internal controls to protect the City's assets and ensure the timely and accurate recording of transactions in accordance with accounting standards for state and local governments**. To provide services that support the operations of City Departments. To **manage the City's investment and debt portfolios in such a manner as to achieve the highest possible investment return with stringent safeguards**, and reduce the annual and total cost of the City's debt. To **provide timely advice to the City's elected and appointed officials** on issues affecting the current and future financial affairs of the City.

The Office of Business & Financial Services includes the Office of the Chief Financial Officer, Treasury / Pensions, Accounting & Control, Grants Management, Real Estate, Risk Management and Budget, Fleet Management, Purchasing, Facilities Management and Technology Management

Source: City of Orlando Office of Business and Financial Services

# Common Objectives of Internal Control

## Reporting Objectives

- Reporting objectives pertain to the preparation of reports for use by organizations and stakeholders and may relate to financial or non-financial reporting and to internal or external reporting.
- Internal reporting objectives are driven by internal requirements in response to a variety of potential needs such as the entity's strategic directions, operating plans, and performance metrics at various levels.
- External reporting objectives are driven primarily by regulations and/or standards established by regulators and standard-setting bodies.
  - External Financial Reporting Objectives
    - accessing capital markets and may be critical to being awarded contracts or in dealing with suppliers and vendors
  - External Non-Financial Reporting Objectives
    - reporting requirements as set forth by regulations and standards for management reporting on the effectiveness of internal control over financial reporting are part of external non-financial reporting objectives
  - Internal Financial and Non-Financial Reporting Objectives
    - information deemed necessary to manage the organization

Source: <http://www.coso.org/>

# Common Objectives of Internal Control

## Compliance Objectives

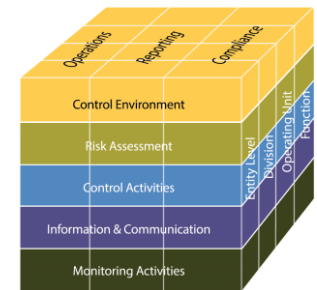
- Entities must conduct activities, and often take specific actions, in accordance with applicable laws and regulations. As part of specifying compliance objectives, the organization needs to understand which laws, rules and regulations apply across the entity.
- Many laws and regulations are generally well known, but others may be more obscure, such as those that apply to an entity conducting operations in a remote foreign territory.
- As part of specifying compliance objectives, the organization needs to understand which laws, rules and regulations apply across the entity

Source: <http://www.coso.org/>

# Components of Internal Control – Control Environment

## Control Environment

- Set of standards, processes and structure that create the basis for carrying out internal control across the organization
- Management reinforces expectations at various levels of the organization
- Comprises the Integrity and Ethics of the organization
- Sets organizational structure for responsibilities and authority
  - Oversight, implementation
- Attracting, retaining and training competent employees
  
- The control environment sets the stage for the overall system of internal controls

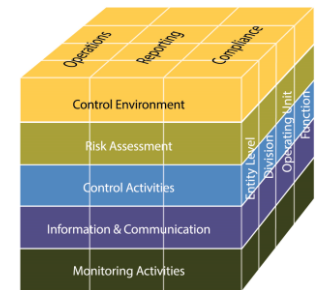


Source: <http://www.coso.org/>

# Components of Internal Control – Control Environment

## Principles of the Control Environment

1. Organization demonstrates a commitment to integrity and ethical values
  1. Sets the tone at the top – through directives, actions and behavior
    1. Lead by example in operations, values and philosophy
  2. Establishes standards of conduct – the expectations of the Board and management are defined in the standards of conduct and understood at all levels
    1. What is right and wrong – demonstration of commitment to ethical values
    2. Integrity and ethics are core messages in communications and training
  3. Processes are put in place to evaluate individuals performance with the expected standards of conduct
  4. Deviations from these expectations are identified and remedied timely
    1. Standards of conduct provide a basis for evaluation to integrity and ethical values
    2. Communicated throughout the organization



Source: <http://www.coso.org/>

# Components of Internal Control – Control Environment

## Exercises Oversight Responsibility

### 2. BOD is Independent from Management and Exercises Control

1. Establishes Oversight Responsibilities—The BOD identifies and accepts its oversight responsibilities in relation to established requirements and expectations.
  1. Board level committees for governance, compensation, audit
2. Applies Relevant Experience – The BOD defines, maintains and periodically evaluates the skills and expertise needed among its members
  1. Internal controls mindset, market knowledge, financial expertise, legal expertise
3. Operates Independently
  1. No current or recent personal or professional relationship with the entity
4. Provides Oversight for the System of Internal Control
  1. Design, Implementation and Conduct of Internal Controls from the 5 steps (76)



Source: <http://www.coso.org/>



# Components of Internal Control – Control Environment

## Establish Structure, Authority, and Responsibility

3. Management establishes structures, reporting lines, and authority
  1. Consider all structures of the entity
    1. How is the organization structured legally, operationally and geographically.
  2. Establishes reporting lines
    1. This enables execution of authorities and responsibilities
    2. Manages the flow of information of the activities
  3. Defines, Assigns and Limits Authorities and Responsibilities
    1. Management and BOD delegate authority and define responsibilities
      1. BOD retains authority over significant decisions
      2. Senior Management establishes directives
      3. Management guides and facilitates the execution of senior management directives
      4. Personnel understand the standards of conduct and objectives
      5. Outsourced services Provide adhere to management decisions
  4. Limitation of Authority
    1. Delegation only to a certain extent
    2. Inappropriate risks not accepted
    3. Duties are segregated



Source: <http://www.coso.org/>

# Components of Internal Control – Control Environment

## Demonstrates a Commitment to Competence

4. Commitment to attract, develop and retain competent individuals aligned to the objectives
  1. Establish Policies and Practices
    1. Reflect expectations of competence to support objectives
      1. Define accountability and performance
  2. Evaluates Competence and Addresses Shortcomings
    1. BOD and Management evaluate competence internally and externally
    2. Requires relevant skills and expertise
  3. Attracts, Develops and Retains Individuals
    1. Training, mentoring, evaluate, retain
  4. Plans and Prepares for succession
    1. Contingency plans for responsibilities for internal controls
    2. BOD is responsible, management identifies and assesses



Source: <http://www.coso.org/>

# Components of Internal Control – Control Environment

## Enforces Accountability

5. Organization holds individuals accountable for their internal control responsibilities
  1. Enforces Accountability through structures, authorities and responsibilities
  2. Establishes Performance Measures, Incentives and Rewards
  3. Evaluates Performance Measures, Incentives and Rewards
    1. Align incentives and rewards with fulfillment of internal control responsibilities
    2. Clear objectives, defined implications, meaningful metrics
  4. Consider Excessive Pressures – evaluate the pressures associated with achieving objectives
    1. Do not set unrealistic performance targets
  5. Evaluate performance of internal control responsibilities
    1. Adherence to standards of conduct
    2. Expected levels of competence

Accountability is interconnected with leadership and is the result of the tone established by the BOD and senior management.

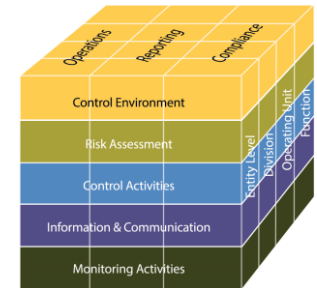


Source: <http://www.coso.org/>

# Components of Internal Control – Risk Assessment

## Risk Assessment

- Every entity faces a variety of internal and external risks
- Risk is the possibility that an event will occur that adversely affect the achievement of objectives
- Risk assessment is a dynamic and iterative process for assessing risks to the objectives.
- A pre-condition of risk assessment is the establishment of objectives
- An risk assessment forms the basis for determining how risks are managed
- What is the entity's risk tolerance –
  - the acceptable level of variation in performance relative to the achievement of objectives



Source: <http://www.coso.org/>

# Components of Internal Control – Risk Assessment

## **Inherent Risk**

The nature and characteristics of certain activities and assets puts them at greater risk for fraud or material error. This condition is referred to as inherent risk. Some characteristics that generally increase inherent risk are:

**Opportunity** - The more liquid or mobile an asset is, or the more decentralized an operation is, the greater the potential for fraudulent activity. For example, inherently risky assets include laptop computers and other portable electronic equipment, cash (especially undeposited cash) and gasoline. Inherently risky operations include the collection of cash in almost any venue, loaning and storage of electronic equipment, and credit card and cell phone usage.

**Unfamiliarity** - The newer the activity or program, the greater the possibility that its operation and risks may not be well understood and its objectives and goals may not be realized. New services may require unique internal control policies and procedures, or may require modification of existing internal controls. For example, when a new recreational facility is opened, procedures for the collection and deposit of fees may not be in place or be well understood by employees. On the operational side, liability insurance may not be adequate to indemnify the organization against claims that may occur because of citizen or spectator injuries.

**Complexity** - The more complex an activity is, the greater the possibility of errors occurring. For example, legal and grant requirements governing aid programs may increase the likelihood that significant noncompliance and eligibility concerns may occur. When planning a large capital project, management may not be sufficiently familiar with the oversight, financial, legal and insurance requirements of construction projects, leading to unexpected costs and delays in completing the project.

# Components of Internal Control – Risk Assessment

## Specifies Suitable Objectives

6. Organization identifies objectives with sufficient clarity to enable identification and assessment of risks relating to objectives
  1. Operations objectives
    1. Management choices
    2. Risk tolerance
    3. Operations and Financial performance goals
    4. Basis for committing resources
  2. External financial and Non-financial reporting objectives
    1. Complies with applicable accounting standards
    2. Reliable, timeliness and transparency
  3. Internal reporting objectives
    1. Designed to provide management the information needed to manage the organization
    2. Unique to each organization
  4. Compliance Objectives
    1. Laws and regulations establish minimum standards of conduct

Source: <http://www.coso.org/>

# Components of Internal Control – Risk Assessment

## Identifies and Analyzes Risk

7. Organization identifies risks and analyzes risks
  1. Identifies risks at all levels of the entity
    1. Ongoing and iterative process conducted to enhance ability to achieve objectives
    2. What is the severity and likelihood of loss?
  2. Analyze internal and external factors
    1. What is the frequency of risk assessment?
    2. Takes into account operational priorities and cost
  3. Involves appropriate levels of Management
    1. Responsibility and accountability for risk identification and analysis is the responsibility of management.
  4. Estimate the significance of each risk
    1. What is the likelihood (probability)
    2. Frequency
    3. Duration of impact after the occurrence
  5. Determine how to respond to the risk
    1. Once potential significant risks is assessed, management determines how to manage the risk

Source: <http://www.coso.org/>

# Components of Internal Control – Risk Assessment

## Assesses Risk Fraud

8. Organization considers potential for fraud
  1. Considers various types of Fraud
    1. Fraudulent reporting
    2. Possible loss of assets
    3. Misappropriation of assets
    4. Illegal acts
  2. Assesses Incentives and Pressures
  3. Assesses Opportunities
  4. Assesses Attitudes and Rationalizations

Source: <http://www.coso.org/>



# Components of Internal Control – Risk Assessment

## Identifies and Analyzes Significant Change

9. Organization identifies and assesses changes that could significantly impact the system of internal control
  1. Assesses the Changes in the external environment
    1. Regulatory, economic, physical environment (natural disasters)
  2. Assesses Changes in the business model
    1. New departments assigned to Senior Management
    2. Changes for financial products (MMF reform)
  3. Assesses Changes in leadership
    1. New leadership may not understand culture and/or may not focus on the entire scope of internal controls. (reduction in employees to reduce cost)

Source: <http://www.coso.org/>

# Components of Internal Control – Control Activities

## Control Activities

- Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved.
- Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time.
  - Control levels are performed at all levels of the entity and at various stages within the business process.

There are different control activities

- **Directive Controls** provide guidance to employees to help achieve the desired objectives in the department
- **Preventive Controls** are designed to deter the occurrence of an undesirable event. The development of these controls involves predicting potential problems before they occur and implementing procedures to avoid them.
- **Detective Controls** are designed to identify undesirable events that do occur and alert management about what has happened. This enables management to take corrective action promptly.
- **Corrective controls** identify flaws in the process and determine actions to be taken (employee training)

Source: <http://www.coso.org/>

# Common Methods of Control Activities

- Segregation of duties – Reduce the risk of error and fraud by requiring that more than one person is involved in completing a particular fiscal process.
- Education, training and coaching – Reduce the risk of error and inefficiency in operations by ensuring that personnel have the proper education and training to perform their duties effectively. Education and training programs should be periodically reviewed and updated to conform to any changes in the agency environment or fiscal processing procedures.
- Performance planning and evaluation – Establish key performance indicators for the agency that may be used to identify unexpected results or unusual trends in data which could indicate situations that require further investigation and/or corrective actions. Evaluations may be done at multiple levels within the agency, as appropriate: the agency as a whole; major initiatives; specific functions; or specific activities.
- Performance reviews may focus on compliance, financial or operational issues. For example, financial reviews should be made of actual performance versus budgets, forecasts and performance in prior periods.

Source: <http://www.coso.org/>

# Common Methods of Control Activities

- Authorization –designed to provide reasonable assurance that all transactions are within the limits set by policy or that exceptions to policy have been granted by the appropriate officials.
- Review and approval – designed to provide reasonable assurance that transactions have been reviewed for accuracy and completeness by appropriate personnel.
- Verification – Control activities in this category include a variety of computer and manual controls designed to provide reasonable assurance that all accounting information has been correctly captured.
- Reconciliation –Provide reasonable assurance of the accuracy of financial records through the periodic comparison of source documents to data recorded in accounting information systems.
- Physical security over assets – Designed to provide reasonable assurance that assets are safeguarded and protected from loss or damage due to accident, natural disaster, negligence or intentional acts of fraud, theft or abuse.

Source: <http://www.coso.org/>

# Common Methods of Control Activities

- Although control activity procedures are not intended to increase staffing levels, acceptable procedures are to be established and followed which may require changes in existing workloads and/or additional staff position(s).
- A periodic thorough internal review of control activities may identify policies and procedures that are no longer required.
- Small to medium size operations may not be able to institute internal control procedures on the same level as larger, more complex agencies.
- In cases where staffing limitations may prohibit or restrict the appropriate segregation of duties, management must either have more active oversight of operations or utilize personnel from other units to the extent possible as compensating controls.

Source: <http://www.coso.org/>

# Components of Internal Control – Control Activities

## Identifies and Analyzes Significant Change

10. Organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives

1. Integrates with Risk Assessment
  1. Actions that ensure responses to assessed risks are carried out properly and in a timely manner (adherence to standards of conduct)
2. Determines relevant business processes (transactions)
  1. Enable organization to achieve objectives (controls)
    1. Completeness
    2. Accuracy
    3. Validity
    4. Timely Reporting
    5. Within acceptable variances



Source: <http://www.coso.org/>

# Components of Internal Control – Control Activities

## Selects and Develops General Controls over Technology

11. Organization selects and develops control activities over technology that supports the achievement of objectives
  1. Determines dependency on Technology in processes
    1. How much of the process is automated
    2. Deployed to ensure automation works properly
  2. Establishes relevant technology infrastructure
    1. Designed to help ensure completeness, accuracy and availability of the process
    2. Networking, computing resources
    3. Can be internal or external
  3. Establishes relevant security management
    1. Restrict to authorized users
    2. Which users can execute transactions
  4. Establishes relevant technology development and maintenance of process controls
    1. Provides a structure for system design
    2. Documentation, approvals, checkpoints

Source: <http://www.coso.org/>

# Components of Internal Control – Control Activities

## Deploys Control Activities through Policies and Procedures

12. Organization deploys control activities that establishes the procedures
  1. Procedures to support the deployment of Management Directives
  2. Responsibility and Accountability for Executing policies and procedures
  3. Performs controls activities in a timely manner
  4. Takes corrective action
  5. Performs using Competent personnel
  6. Reassesses Policies and Procedures

Source: <http://www.coso.org/>



# Components of Internal Control – Control Activities

## Deploys Control Activities through Policies and Procedures

12. Organization deploys control activities that establishes the procedures

Policies may be unwritten or written

Unwritten may be cost effective but also easier to circumvent

Policies must establish clear responsibility and accountability

Procedures must be timely to be useful

If weakness is identified a corrective Action must be taken and the control investigated

Competency is important for an effective well-designed control activity

Periodic reassessment for relevance and effectiveness

Changes in people, processes, and technology may impact the process



Source: <http://www.coso.org/>

# Components of Internal Control – Info and Communication

## Information and Communication

- Information is necessary to carry out the internal controls responsibilities that support the achievement of the objectives.
- Communication can be **formal** through reports, training, written policy manuals, accounting and financial reporting manuals, websites, memoranda, etc. Information is also communicated **informally** through email, speech, and actions of management and other agency personnel.
- Risk communication creates a dialog about the existence, nature, severity, or acceptability of risks. The identification of new risks or changes in risk is dependent on communication.

Source: <http://www.coso.org/>

# Components of Internal Control – Info and Communication

## Information and Communication

- The control structure must provide for the identification, capture and exchange of information both within the agency and with external parties.
- Information communicated should be timely and accurate.
  - Internal communication throughout the organization – directives and responsibilities
    - Conveys the code of ethics, internal control philosophy
    - Approach and delegation of Authority
  - External communication includes inbound information from the outside party and provides the external parties with requirements and expectations
    - Allows stakeholders (citizens) and suppliers to understand the services standards and provide valuable input on performance and service quality and effectiveness.
    - Effective management should appropriately convert such input into continuous improvements in operations, reporting, and compliance.

Source: <http://www.coso.org/>

# Components of Internal Control – Info and Communication

## Uses Relevant Information

### 13. Organization obtains or generates and uses relevant, quality information

1. Identifies information requirements
  1. Info is necessary to carry out internal control responsibilities
  2. Gathered by BOD and senior management and summarized
  3. Controls themselves establish information requirements
2. Captures internal and external sources of data
  1. Internal Sources of Data– Email, minutes from meetings, personnel reports, response to surveys, whistleblower hotline
  2. External Sources of Data – service providers, industry research, regulatory bodies, social media, whistleblower hotline
3. Processes relevant data into information
  1. Source, capture and process large volumes of data in meaningful actionable information
  2. Manual and automated
4. Maintains quality throughout processing
  1. Must be accessible, correct, current, protected, retained, sufficient, timely, valid and verifiable
5. Considers costs and benefits

# Components of Internal Control – Info and Communication

## Communicates Internally

### 14. Organization internally communicates information

1. Communicates internal control information
  1. Enables all personnel to carry out internal control responsibilities
  2. Includes policies and procedures
  3. Roles, responsibilities and expectations
2. Communicates with the Board of Directors
  1. Senior management communicates with BOD to fulfill roles and objectives
  2. Communication from other employees is important
3. Provides Separate Communication Lines
  1. Whistleblower hotlines for confidential communication
  2. Employees must believe supervisors want to know about problems
  3. Non-communicating management compounds the problem
4. Selects relevant Method of Communication
  1. Clarity and effective communication is important – what is intended
  2. Face to face, dashboards, email, live or online training, memoranda, policies and procedures, presentations, social media

Source: <http://www.coso.org/>

# Components of Internal Control – Info and Communication

## Communicates Externally

### 15. Organization communicates with external parties

1. Communicates to external parties
  1. How is information received and shared internally
  2. Outbound allows external parties to readily understand how they interact with the entity
2. Enables inbound communication
  1. Independent assessment of internal controls
  2. Auditor's assessment
  3. Customer feedback
3. Provide separate lines of communication
4. Selects relevant Method of Communication
  1. Clarity and effective communication is important – what is intended
  2. Press and news releases, blogs, social media

Source: <http://www.coso.org/>

# Components of Internal Control – Monitoring Activities

## Monitoring Activities

- Things change - by monitoring the risks and the effectiveness of control measures on a regular basis, an agency can react dynamically to changing conditions.
- Monitoring evaluates the effectiveness internal controls and is designed to ensure that internal controls continue to operate effectively. Monitoring is effective when it leads to the identification and correction of control weaknesses before they materially affect the achievement of the agency's objectives.
- Proper monitoring is most effective when results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.
- There are two types of monitoring: ongoing and periodic. **Ongoing monitoring** occurs in the course of operations. It includes tasks such as supervisory reviews of reconciliations, reports, and processes. **Periodic monitoring** includes tasks such as periodic internal audit sampling and annual reviews of high-risk business processes. Internal control deficiencies uncovered by monitoring should be reported to higher levels of management.

Source: <http://www.coso.org/>

# Components of Internal Control – Info and Communication

## Conducts Ongoing and/or Separate Evaluations

### 16. Organization selects, develops and performs ongoing evaluations

1. Mix of ongoing and Separate evaluations
  1. Ongoing is part of the routine - typically technology based
    1. Procurement identifies any unusual transactions
    2. Variance levels
  2. Periodic includes an audit
2. Considers Rate of Change
  1. May require more frequency
3. Establishes a baseline of understanding
  1. Helps to understand when risks are higher due to changes
4. Uses knowledge of Personnel
  1. Evaluators need to be knowledgeable about activities to properly understand the functions
  2. Internal audits, cross operating units, benchmarking/peer evaluations
5. Adjusts Scope and Frequency
6. Objective Evaluations

Source: <http://www.coso.org/>



# Components of Internal Control – Monitoring Activities

## Evaluates and Communicates Deficiencies

17. Organization communicates deficiencies in a timely manner to those responsible for taking corrective action
  1. Assesses the results of ongoing and separate evaluations
    1. Not only to identify short comings in internal control that can adversely affect the entire organization, but also identify areas to improve efficiency of internal control
  2. Communicates deficiencies
    1. Communicating to the responsible party to take action is critical
    2. Method established by laws, rules, and internal policy
  3. Monitors Corrective actions
    1. Management is responsible for tracking the remediation efforts and making sure corrective action is completed on a timely basis

Source: <http://www.coso.org/>

# Internal Control and Financial Reporting

# Adopting Financial Policies – GFOA

Financial policies are central to a strategic, long-term approach to financial management. Some of the most powerful arguments in favor of adopting formal, written financial policies include their ability to help governments:

1. Institutionalize good financial management practices.
  - Formal policies usually outlive their creators, and, thus, promote stability and continuity. They also prevent the need to re-invent responses to recurring issues.
2. Clarify and crystallize strategic intent for financial management.
  - Financial policies define a shared understanding of how the organization will develop its financial practices and manage its resources to provide the best value to the community.
3. Define boundaries. Financial policies define limits on the actions staff may take.
  - The policy framework provides the boundaries within which staff can innovate in order to realize the organization's strategic intent.
4. Support good bond ratings and thereby reduce the cost of borrowing.
5. Promote long-term and strategic thinking.
  - The strategic intent articulated by many financial policies necessarily demands a long-term perspective from the organization.
6. Manage risks to financial condition.
  - A key component of governance accountability is not to incur excessive risk in the pursuit of public goals.
  - Financial policies identify important risks to financial condition.
7. Comply with established public management best practices.

Source: GFOA

# Internal Controls and ICFR

Finance officers are instrumental in overseeing accounting and financial reporting controls.

A finance officer's priorities and responsibilities are:

- Supervising the preparation of accounting records,
- Producing financial reports and

Finance officers and business officials also need to work closely with senior management and the Board of Directors in fostering a positive control environment. (setting the tone)

Managers and department heads are generally responsible for identifying potential risks, designing and implementing controls for their areas of responsibility, and keeping current with events and changes that affect the controls they have put into place.

Operational managers, however, rely upon the CEO to provide the leadership and the entity-wide communication needed to foster an integrated internal control framework.

Source: Division of Local Government and School Accountability: Office of the State Comptroller

# Common Objectives of Internal Control for Financial Reporting

The following are common objectives of ICFR:

- Safeguard its assets
- Provide efficient and effective management of assets and operations
- Check the accuracy and reliability of its accounting data
- Encourage adherence to policies for accounting and financial controls

# Internal Controls for Financial Reporting from the SEC

## SEC DEFINITION OF Internal Controls Financial Reporting (ICFR)

The U.S. Securities and Exchange Commission's (SEC) rules define internal control over financial reporting as “**a process** designed by, or under the supervision of, the [company's] principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel, **to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP** and includes those policies and procedures that —

- 1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- 2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- 3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.”

Source: Securities Exchange Act Rule 13a-15(f).

# Internal Controls from a Financial Perspective

## Definition From the American Institute of CPAs

- Internal control is a process — effected by plan management and other personnel, and those charged with governance, and designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting.
- Your plan's policies, procedures, organizational design and physical security all are part of the internal control process.
- The following are some general characteristics of satisfactory plan internal control over financial reporting:
  - Policies and procedures that provide for appropriate segregation of duties to reduce the likelihood that deliberate fraud can occur
  - Personnel qualified to perform their assigned responsibilities
  - Sound practices to be followed by personnel in performing their duties and functions
  - A system that ensures proper authorization and recordation procedures for financial transactions

Source: <http://www.aicpa.org/>

# Internal Controls from a Financial Perspective

## Internal Controls Financial Reporting

- Do the financial statements fairly reflect all transactions?
- Are all transactions recorded in accordance with applicable policies and rules?
- Are the Assurance that transactions are carried out in accordance with the appropriate authorized individuals within the entity?
- Is there a reasonable assurance that financial resources are safeguarded against theft and loss due to waste, abuse, mismanagement, errors, fraud, and omissions?



# Internal Control and the Treasury Function

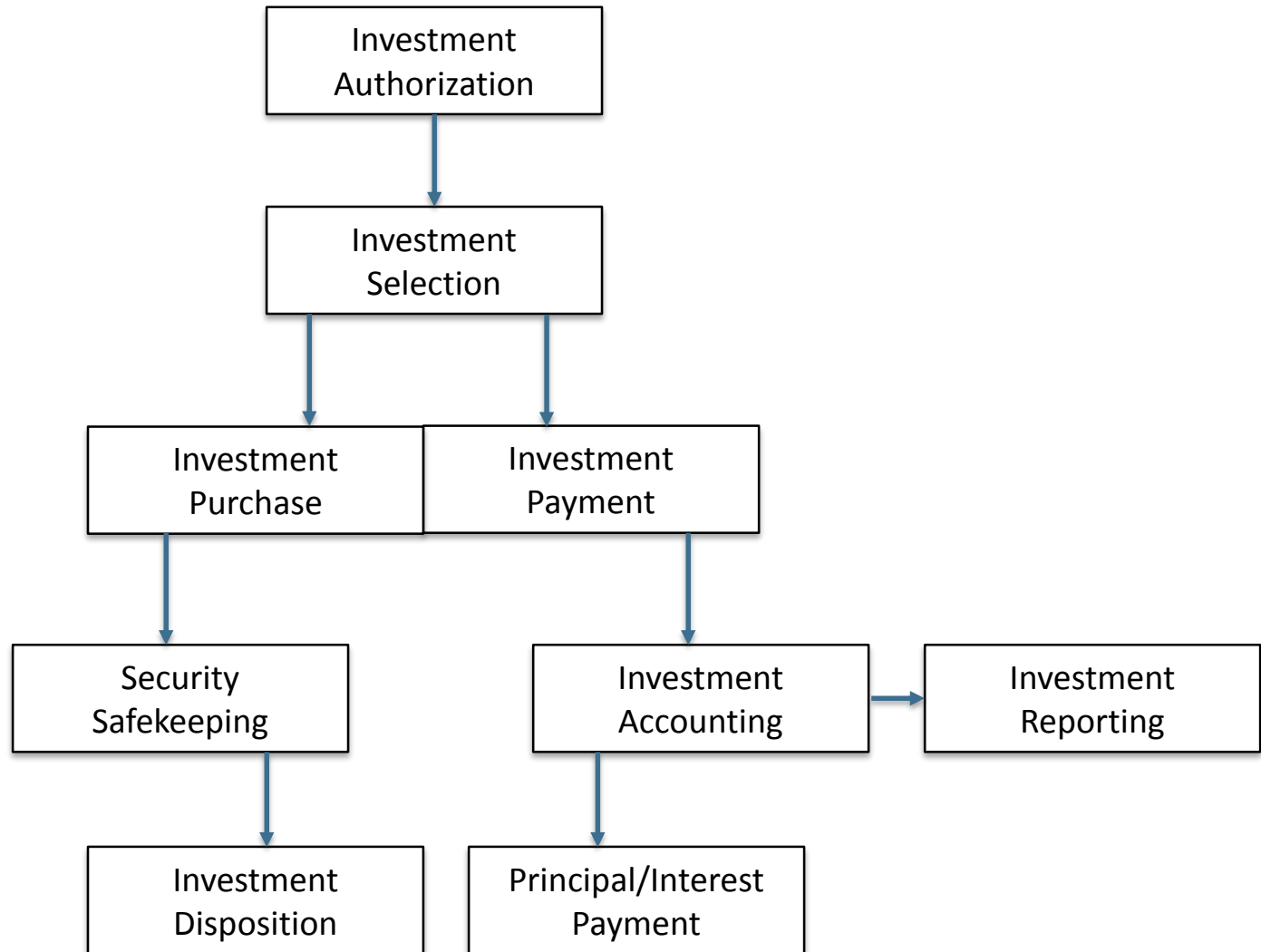
# Objectives of Internal Control In the Treasury Function

- Internal controls constitute specific policies and procedures (the controls) designed to achieve the objectives of:
  - Establish formal written procedures
  - Identifying risks
  - Creating a separation of duties
  - Safeguard physical and financial assets
  - Efficiency of operations
  - Reliability of financial reporting
  - Compliance with legal requirements
  - Minimize opportunities for fraud, employee error

# Designing Internal Controls for Investments

- Identify events and transactions that make up the investment function
  - This will help identify potential weakness
  - Create a list or chart of investment activities
  - Discuss each step and the risk involved
  - What controls can be put in place to reduce risks

# Designing Internal Controls for Investments



Source: Investing Public Funds second edition

# Designing Internal Controls for Investments

## Investment Authorization

- Authorized decision makers
- Guidelines on permitted investments (investment policy)
- Flexible to respond to changes in the markets
- Restrictive to minimize the risk of fraud or loss

## Investment Selection

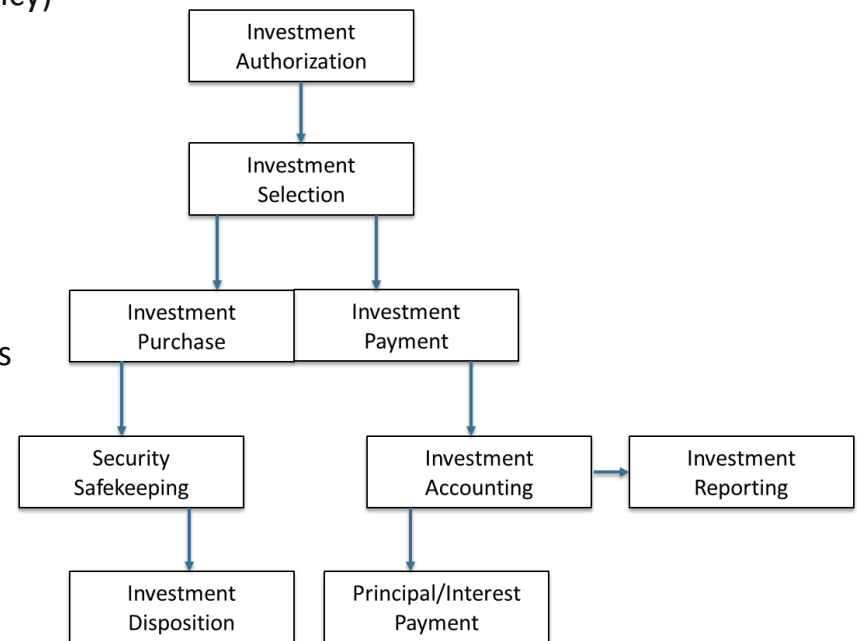
- Only permitted investments
- Risk reward and market conditions
- Factors to consider: Yield, Maturity, Credit worthiness
- Permitted does not equal appropriate

## Investment Purchase and Payment

- Clearly, well documented transactions
- Trade ticket, custody statement, investment report

## Security Safekeeping

- Establishing and maintaining ownership
- Reconcile custody statements and other internal/external reports



Source: Investing Public Funds second edition

# Designing Internal Controls for Investments

## Investment Accounting

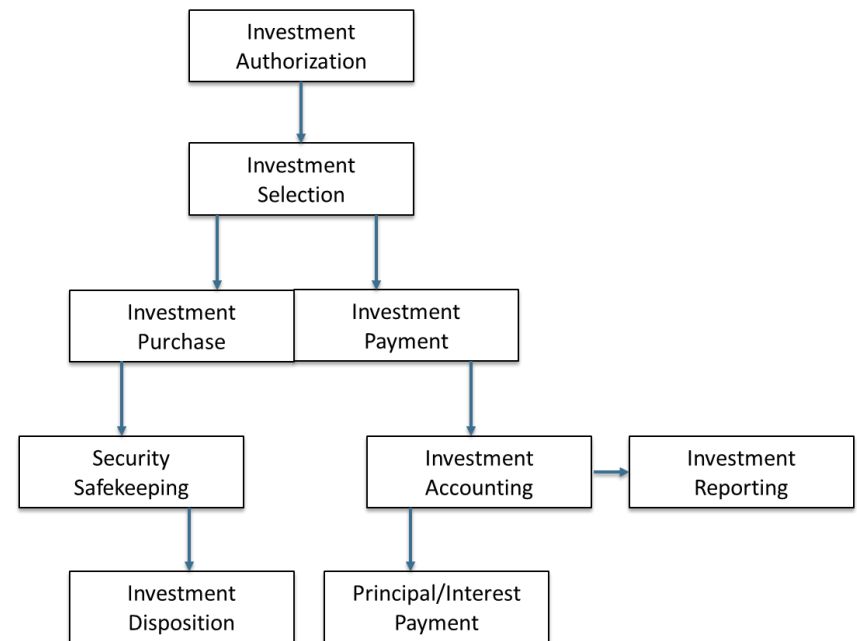
- Proper recording of investment transactions (including proper amortization of premiums and discounts)
- Develop reports that categorize transactions
- Must be timely and free from errors

## Investment Disposition/Payment

- Ensure all transactions are accurate
- Purchase, holding period, sale or maturity

## Investment Reporting

- Timely
- Complete
- Accurate
- Comprehensive
- Consistent with all financial assets



Source: Investing Public Funds second edition

# Risk Assessment - Possible Events of Loss

## ▮ Embezzlement/Conversion

- ▮ Cash, securities, broker/dealers, investment managers

## ▮ Mechanical errors

- ▮ Incorrect amounts
- ▮ Improper amortization of premiums and discounts
- ▮ Incorrect payees
- ▮ Wire transfer failures

## ▮ Judgement Errors

- ▮ Inappropriate securities selection
- ▮ Poor market timing (?)
- ▮ Selection of an insolvent dealer or depository

## ▮ Cover Up

- ▮ Fraud
- ▮ Delaying or avoiding recognition of losses

Source: Investing Public Funds second edition

# Designing Controls

## ■ A formal written policy will

- Establish the framework - the policies and procedures
- Permitted securities, diversification, maturities, benchmarks, reporting requirements

## ■ Formal Written Agreements

- Broker Dealers, investment advisors, banking services
- Each agreement should specify the services to be provided and expectations communicated

## ■ Organizational Design

- Minimize opportunity for collusion
- Separation of duties
- Difficult for both small and large organizations
- Multiple authorization for wire transfers
- Cross training
- Required duty rotation

## ■ Pre-employment screening

- Carefully review credentials and verify professional experience, training and references
- Financial positions are sometimes eligible for enhanced pre-employment investigations

Source: Investing Public Funds second edition



# Designing Controls

## Documentation of Procedures

- Extremely important element for internal controls
- Time consuming but can be more efficient with written procedures and formal discipline
- Describe processes, responsibilities, step by step description

## Training

- Key aspect for helping minimizing losses, especially those related to human error
- Should be geared to the responsibilities and the role of the individuals
- Cross training may also reduce loss and create an opportunity for duty rotation
- Understanding details regarding investment characteristics and how to document transactions

## Periodic Reporting

- Documenting investment holdings, performance and compliance with policy
- Encourages accountability and discipline
- Verifies investment strategy is consistent with objectives

## External Monitoring

- Typically part of the annual external audit
- May use an external provider or investment advisor consultant for external reporting

Source: Investing Public Funds second edition

# Components of Internal Control

- Segregation of duties
  - Custody vs. Accounting
    - The custody of assets should be separate from the accounting for those assets (physical and financial)
  - Executing vs. Recording
    - Recording transactions should be done by someone other than the person executing the transaction
    - Certain transactions may require dual signatures (purchases or transfers over a certain threshold)
- Rotation of duties
  - A periodic rotation of duties (particularly if unannounced) may reduce likelihood of fraud
  - This is also a method for cross training in the event of staff turnover, reduction in staff or for temporary coverage (vacations)

Source: Investing Public Funds second edition

# Designing Controls

## Paper/Electronic Documentation

- Documentation is essential for an effective internal controls program in the investment function
- Every transaction should be documented with a confirmation from the broker, the custodian and should include specific detail including
  - Date of transaction
  - Buy/Sell
  - Broker/Dealer
  - Competitive Bid quotes when appropriate
  - Account number name
  - Wire transfer instructions (limited internal control)
  - Security Description
  - Investment yield, price
  - Dollar amount
  - Maturity of investment
  - Delivery instructions

Source: Investing Public Funds second edition

# Designing Controls

## Wire Transfer Agreements

- Wire transfers typically involve large sums of money
- Policies should be in place to minimize risk of loss
  - Listing of accounts
  - Custody functions
  - Authorized personnel and dollar limits
  - Allowable types of communications (email, verbal, fax)
  - Requirement that the instructions are on letterhead
  - Confirmation and notification procedures
  - Bank liability

Source: Investing Public Funds second edition

# Investment Reporting Compliance

# Reporting Compliance

## Reporting Daily Reconciliation

- ▮ All proposed investments must be in compliance with the city's investment policy
- ▮ Trade tickets are emailed (via Bloomberg) or faxed by the selling broker/dealer to the City
- ▮ All investment activity is compiled into a transmittal form to the city's custodian bank
- ▮ Confirmation receipt received from the city's custodian bank of all investment activity
- ▮ Separation of activity - all daily investment activities reviewed by independent noninvestment
- ▮ Daily investment activity is entered into the daily Cash flow for next days activity.

Source: GFOA City of Anaheim

## Accounting for Investments

- ▮ Book Value, Market Value or Original Cost
- ▮ Verifying security pricing at time of trade
- ▮ Verifying pricing daily and at month end

# Portfolio Summary Page

- Beginning and ending book and market value
- Unrealized and realized gains and losses
- Amortization/accretion, net income
- Pending transactions (trade date vs. settlement date)
- Book yield, market yield, weighted coupon
- Duration, weighted final maturity, weighted effective maturity
- Compliance checks for security, maturity and rating distribution

Sample Portfolio	April 1, 2016	April 30, 2016	Portfolio Characteristic	April 1, 2016	April 30, 2016
	Beginning Balance	Ending Balance		Beginning Balance	Ending Balance
<b>Historical Cost</b>	<b>\$ 34,519,296.95</b>	<b>\$ 33,678,900.35</b>	<b>Book Yield Gross</b>	<b>1.01%</b>	<b>1.07%</b>
Book Value	\$ 34,368,435.22	\$ 33,550,403.01	<b>Market Yield Gross</b>	<b>0.79%</b>	<b>0.86%</b>
Accrued Interest	109,435.62	145,277.00	<b>Weighted Average Coupon</b>	<b>1.76%</b>	<b>1.84%</b>
<b>Book Value Plus Accrued</b>	<b>\$ 34,477,870.84</b>	<b>\$ 33,695,680.01</b>	<b>Duration</b>	<b>1.83 Years</b>	<b>2.00 Years</b>
Net Unrealized Gain/Loss	163,552.24	152,658.66	<b>Weighted Effective Maturity</b>	<b>1.88 Years</b>	<b>2.05 Years</b>
<b>Market Value Plus Accrued<sup>(2)</sup></b>	<b>\$ 34,641,423.08</b>	<b>\$ 33,848,338.67</b>	<b>Weighted Final Maturity</b>	<b>1.88 Years</b>	<b>2.05 Years</b>
Net Pending Transactions	0.00	0.00			
<b>Market Value Plus Accrued Net<sup>(2)</sup></b>	<b>\$ 34,641,423.08</b>	<b>\$ 33,848,338.67</b>			
		<b>April 2016</b>			
		<b>Net Income</b>			
		\$ 45,515.61			
		(17,650.82)			
		0.00			
		<b>\$ 27,864.79</b>			

Source: Public Trust. Data based on information provided by custodian.

# Compliance Summary Page

## SUMMARY ASSET ALLOCATION PAGE WITH COMPLIANCE CHECK



### Security Distribution January 1, 2016 to March 31, 2016

Security Distribution	January 1, 2016 Beginning Balance	Portfolio Allocation	March 31, 2016 Ending Balance	Book Yield	Portfolio Allocation	Change in Allocation	Permitted by Policy*	Compliant
Cash	\$ 31,517,113.52	16.16%	\$ 11,792,712.08	0.00%	6.19%	-9.98%	100.00%	YES
LGIP	41,015,322.17	21.03%	51,001,835.04	0.86%	26.75%	5.72%	50.00%	YES
U.S. Treasury Notes	52,057,402.06	26.69%	52,026,124.96	1.18%	27.29%	0.60%	100.00%	YES
U.S. Agency Notes	-	0.00%	-	0.00%	0.00%	0.00%	50.00%	YES
FNMA	15,013,944.55	7.70%	16,536,197.48	1.08%	8.67%	0.98%	40.00%	YES
FHLMC	10,014,726.00	5.14%	12,329,800.35	1.03%	6.47%	1.33%	40.00%	YES
FFCB	7,992,500.00	4.10%	7,992,500.00	0.82%	4.19%	0.09%	40.00%	YES
FHLB	22,016,636.00	11.29%	18,019,116.00	1.09%	9.45%	-1.84%	40.00%	YES
<b>Fed Instrumentality Subtotal</b>	<b>\$ 55,037,806.55</b>	<b>28.22%</b>	<b>\$ 54,877,613.83</b>	<b>1.03%</b>	<b>28.79%</b>	0.56%	80.00%	YES
Asset Backed Securities	-	0.00%	-	0.00%	0.00%	0.00%	20.00%	YES
Commercial Paper	-	0.00%	-	0.00%	0.00%	0.00%	30.00%	YES
Corporate Notes	10,601,532.50	5.44%	11,208,331.50	1.35%	5.88%	0.44%	35.00%	YES
Bankers Acceptances	-	0.00%	-	0.00%	0.00%	0.00%	25.00%	YES
Money Market Funds	194,280.59	0.10%	138,095.23	0.20%	0.07%	-0.03%	50.00%	YES
Municipal Bonds	2,585,750.00	1.33%	2,585,750.00	1.00%	1.36%	0.03%	20.00%	YES
Intergovernmental Funds	2,000,598.23	1.03%	7,008,584.80	0.59%	3.68%	2.65%	35.00%	YES
Certificates of Deposit	-	0.00%	-	0.00%	0.00%	0.00%	20.00%	YES
<b>Total Portfolio Historical Cost</b>	<b>\$ 195,009,805.63</b>	<b>100.00%</b>	<b>\$ 190,639,047.44</b>	<b>0.96%</b>	<b>100.00%</b>			

Source: Public Trust. Data based on information provided by custodian.



## Limitations of Internal Controls

# Limitations of Internal Control – Reasonable Assurance

- An effective system of internal control provides management and the board of directors with reasonable assurance regarding achievement of an entity's objectives.
  - That stated....No matter how well designed and operated, internal control can provide only reasonable (not absolute) assurance that all agency objectives will be met
- WHAT IS REASONABLE????
- The term “reasonable assurance” rather than “absolute assurance” acknowledges that limitations exist in all systems of internal control, and that uncertainties and risks may exist, which no one can confidently predict with precision. Absolute assurance is not possible.
  - Reasonable assurance does not imply that an entity will always achieve its objectives. Effective internal control increases the likelihood of an entity achieving its objectives.

# Limitations of Internal Control

- Human Error – a simple transposition in a journal entry
- Judgment – sometimes decisions must be made with judgment in the time available, based on information at hand and under the pressures to conduct business.
- Breakdowns – Even well designed internal controls, they can break down.
  - Misunderstanding instructions or simply make mistakes.
  - Errors may also stem from new technology - Complex
- Management override –high-level personnel may be able to override prescribed policies or procedures for personal gain or advantage. (This should not be confused with management intervention, which represents management actions to depart from prescribed policies or procedures for legitimate purposes.)

# Limitations of Internal Control

- Collusion can result in control failures. Individuals acting collectively often can alter financial data or other management information in a manner that cannot be identified by the control system.
- Resource limitations – Every agency must prioritize control activities because resources are not available to put every control activity into practice.
- Costs versus benefit – In determining whether a particular control activity should be established, the cost of establishing the control must be considered along with the risk of failure and the potential impact.
  - Excessive control is costly and counterproductive.
  - Too little control presents undue risk.
  - It is important to make a conscious effort to strike an appropriate balance.

## Red Flags

# Red Flags

## Employee Red Flags

- ☰ Employee lifestyle or behavioral change
- ☰ Significant personal debt and credit problems
- ☰ Refusal to take vacation or sick leave
- ☰ Lack of segregation of duties in vulnerable areas.

## Management Red Flags

- ☰ Reluctance to provide information to auditors
- ☰ Management decisions are dominated by an individual or small group
- ☰ Weak internal control environment
- ☰ Excessive number of checking accounts or frequent changes in banking accounts
- ☰ Excessive number of year-end transactions
- ☰ High employee turnover rate
- ☰ Service contracts result in no products

# Red Flags

## Records and Reports Flags

- ☞ Large number of write-offs of accounts
- ☞ Discrepancies between bank deposits and postings
- ☞ Excessive or unjustified cash entries and/or adjustments
- ☞ No supporting documentation for adjusting entries
- ☞ Incomplete or untimely bank reconciliations.

## Cash Receipts and Disbursements Flags

- ☞ Lack of segregation of key duties
- ☞ Deposits not made intact
- ☞ Cash receipts issued out of sequence
- ☞ No cash receipt log kept
- ☞ Lack of control over CFO's signature
- ☞ Uncontrolled access to blank checks.

# Red Flags

## Records and Reports Flags

- ❏ Large number of write-offs of accounts
- ❏ Discrepancies between bank deposits and postings
- ❏ Excessive or unjustified cash entries and/or adjustments
- ❏ No supporting documentation for adjusting entries
- ❏ Incomplete or untimely bank reconciliations

## Purchasing Flags

- ❏ Lack of segregation of key duties
- ❏ Purchases that bypass normal procedures
- ❏ Changes made to vendor files
- ❏ Vendor addresses match employee addresses

## Fixed Asset Flags

- ❏ Lack of segregation of key duties
- ❏ Lack of asset tags and periodic physical inventories
- ❏ Lack of physical security over assets.



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