



YESTERDAY, TOMORROW AND FINANCE
2020 CSMFO ANNUAL CONFERENCE
JANUARY 28-31, 2020
DISNEYLAND CA



One Day You Wake Up and Have Material Weaknesses in Internal Controls



Course Objective:

At the completion of this course, participants should understand the importance of internal controls, what comprises a system of internal controls and how to document and test internal control. When controls are deficient, participants will be able to identify those deficiencies and learn ways in which to respond, organize, prioritize and track and follow up. In addition, organizations can identify options to using a risk based internal audit program in connection with internal risk assessment procedures to assist in preventing control deficiencies, fraud, waste and abuse.

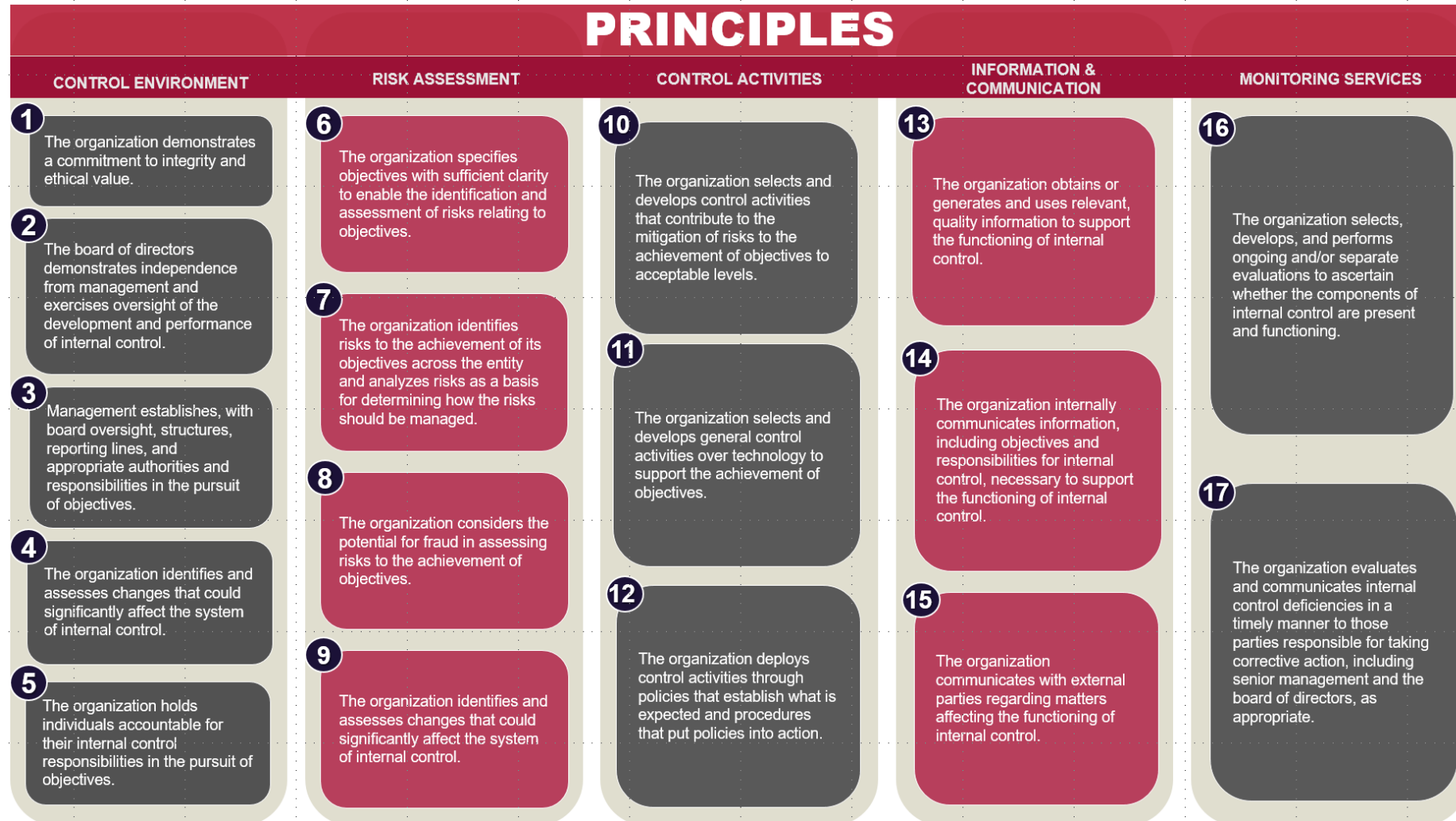
Why are Internal Controls Important

- a. Safeguarding of Assets
 - a. From Fraud, Waste and Abuse or Error
- b. Prevention and Detection
 - a. Ensure Reliable Financial Reporting
 - b. Maintain Compliance with Contracts, Laws and Regulations
- c. Correction
 - a. Companies Operate More Efficiently
 - b. Automation of Manual Controls
 - c. Identifies Unnecessary Duplication and Redundancy
 - d. Receive Timely and Relevant Information

A System of Internal Controls

- a. Definition
- b. COSO Framework
- c. Design
- d. Documentation
- e. Implementation
- f. Validation





A System of Internal Controls

- a. Design
- b. Documentation
- c. Implementation
- d. Validation

A System of Internal Controls

- a. **Management** is responsible for the preparation and fair presentation of financial statements....and for **such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement**, whether due to *fraud* or error.
- b. The *financial (external) auditor considers internal control* relevant to the entity's **preparation and fair presentation of the financial statements** in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- c. The **internal auditor** complements the external auditor by looking broader and deeper to evaluate the controls environment and test specific controls, and works with **management** to ensure improvements are implemented.

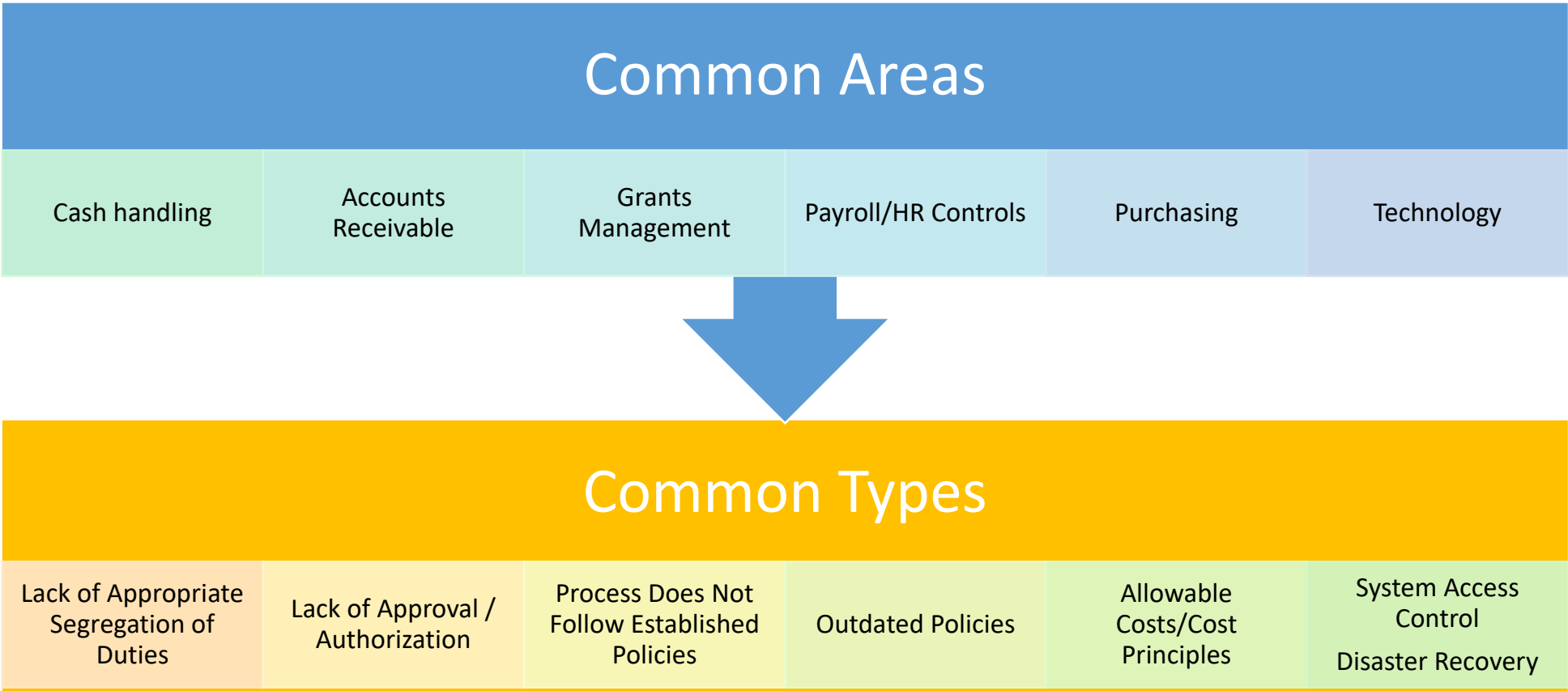
Identifying Control Deficiencies

- a. Elected Official/Leadership/Management
- b. External Audit
- c. Internal Audit
- d. Federal Grant Audits
- e. Regulatory Audits
- f. Ethics Hotline
- g. Sideline Conversations
- h. Talking to Your Staff Responsible for the Process/Control

Risk Based Internal Audit Program

Enterprise Risk/Performance Assessment	Enterprise Internal Controls Review
Asset Management and Capital Program	Payroll
Operations/Service Delivery	Monthly Account Reconciliation and Closing
Risk Management and Internal Controls	Budgeting
Governance, Management, and Organization	Cash Receipts and Cash Handling
Funding and Economics	Revenues and Billings
Human Resources	Accounts Receivables and Write-Offs
Technology	Grants Management and Compliance
Safety and Security	Information Technology Access
Accounting, Financial Reporting, and Procurement	Accounts Payable
Fraud, Waste, and Abuse	Overall Control Environment

Top Control Deficiencies



How to Respond

- a. Organize & Prioritize
- b. Execute, Track, Follow Up & Validate
- c. Monitor

Organize & Prioritize

Develop a Corrective Action Plan that defines:

- a. Discrete tasks that are easily implemented
- b. Implementation that will take time to develop and implement
- c. Require policies and procedures
- d. Require training
- e. Address through internal audit work plans

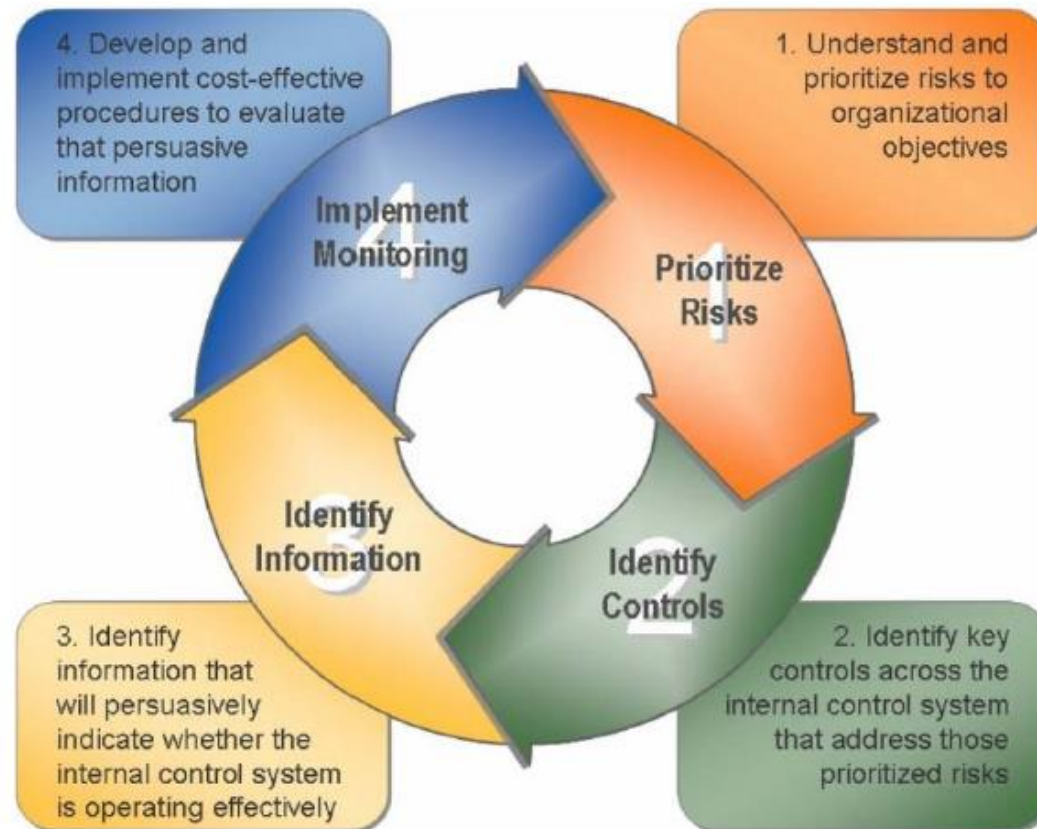
Execute, Track, Follow Up & Validate

Item No.	BOS Acceptance /Approval	BOS Direction to Implement	Finding No.	Finding	Recommendation	Dept.	Owner	Remediation Plan (Course of Action & Expected Benefits)	Est. Cost	Est. Savings	Finding corrected? (Y, N, Partial)	Expected Compl. Date	Actual Compl. Date	Status Comments
1			1	The City's current policy does not adequately address the process for documenting when a good or service is received.	Update the current policy and procedures to include additional guidance relating to the process of documenting when goods and services are received and require documentation for receipt of good or services before payment is made.	Finance	CFO	The accounts payable invoice processing policy in policytech states "The department is responsible for verifying product has been received. After items have been verified, the accounts payable clerk processes the invoice utilizing the HT system." The policy will be updated to add a procedure for the departments to document this procedure by initialing and dating the invoice or the packing slip to confirm receipt.			P	3/31/2018		Stamps have been purchased. Written policy needs to be updated and communication to departments on policy change will occur later this month or March.
2			2	The City's current policies and procedures do not adequately address all aspects relating to segregation of duties when receiving goods and approving payment for goods.	Update the current written policies and procedures relating to processing purchases and segregated duties to provide more comprehensive guidance.	Finance	CFO	There are always at least 2 individuals involved in an a/p transaction at the dept level and an approver would most likely never be involved in the receipt of the goods. We believe the added procedure in step 1 will address this.			P	3/31/2018		
3			3	The City's current policies and procedures do not adequately specify an appropriate process to ensure approval for payment was performed after the goods were received.	Update the current written policies and procedures to require that approval for payments should not be performed until after the documented received date.	Finance	CFO	This will be addressed with the added procedure in step 1.			P	3/31/2018		
5			5	The vendor name listed on two purchasing invoices did	Provide additional training to supervisors that are	Finance	CFO	The Finance Department Accounting Technician and the Accounting Manager confirm that the			P	3/31/2018		Written policy needs to be updated.

Execute, Track, Follow Up & Validate

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10			10	Required quotes or documentation of an exemption from the requirement were not provided for all relevant purchases.	Revise policies to provide additional clarification regarding the requirement for at least three quotes, and increase compliance through training and monitoring.	Finance	CFO	The purchasing & contracts policies and procedures will be updated to provide additional clarification regarding the requirement for quotes.			Y	12/31/2017	Feb-18	
11			11	The completeness of all vendor files could not be readily assessed.	Continue ongoing efforts to maintain complete vendor files.	Finance	CFO	This finding relates to W-9's for vendors. The City has numerous vendors that have been doing business with the City for many years. Prior to 2016, vendor W-9's were maintained in hard copy and depending on when the document was received may be stored at an offsite facility. Beginning in 2016, the Finance Department began maintaining these documents electronically so they can be easily accessed. In addition, the department is working to ensure that W-9's received in hard copy for all existing vendors are available electronically.			Y	3/31/2018	Feb-18	

Monitor



How to Prevent

a. Organization's Role

- Identify strengths and weaknesses in the organization and leverage
- Be more proactive with internal controls
- Develop a risk ledger for mission critical functions
- Provide training, educate
- Ask and identify what could go wrong? If it seems out of place, it probably is

b. External and Internal Audit Working Collaboratively with Management

*Thank
you.*



Rancho Murieta CSD
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