

What are *Internal Controls*



What We'll Tell You



- What are Internal Controls ?
- What are good practices?
- Examples of poor internal controls
- Some TCDD internal controls
- Questions?

INTERNAL CONTROLS

3

- A Process
 - Guided by organization s Directors (Board) and executive staff
 - Designed to provide “reasonable assurance” about the achievement of objectives
 - ✦ Reasonable : formed in a reasonable time period at a reasonable cost
 - ✦ Assurance: a level of confidence

Operations Objectives

4

- Effectiveness and efficiency
 - ✓ Operational Goals
 - ✓ Financial Procedures
- Safeguarding of assets (\$\$) against loss

Financial and Non-Financial Reports

5

- Internal Reporting - Board and Executive Staff
- External Reporting – State and Federal Reports; Annual Reports; etc.
- May encompass
 - ✓ Reliability – accurate, objective, balanced
 - ✓ Timeliness,
 - ✓ Transparency – understandable to all
 - ✓ Other terms expected state or federal requirements, the organization’s policies, etc.

Compliance Objectives

6

- Organization’s processes and procedures are consistent with state and federal laws, regulations, requirements, etc.

Internal Control Systems

7

- Effective if board of directors and management staff have **reasonable assurance** that:
 - ✓ They understand if the organization's operations objectives are being achieved.
 - ✓ Published reports are prepared reliably.
 - ✓ Laws and regulations are complied with.

Internal Control Components

- **Control Environment** – leadership sets a tone for ethical and objective practices
- **Risk Assessment** – risks are identified and addressed
- **Control Activities**
- **Information and Communication**
- **Monitoring**

Common Control Activities

9

- Separation of functional responsibilities to create a system of ***checks and balances***.
- A system of **authorization and record procedures** to provide reasonable accounting control over assets, liabilities, revenues, and expenditures.
- Developing **policies and procedures** to coordinate and document key business processes.

Common Control Activities

10

- Should be well thought out
- Reviewed and adjusted periodically to reflect changes
- Effectiveness of internal controls is ***a state or condition of the process at one or more points in time***

Types of Internal Controls

11

- **Preventive** – approvals / dual signatures / access authorizations / separation of duties / Policies & Procedure
- **Execution or Operational** – separation of duties / supervisory / access controls / SOP
- **Detective** – exception reports / data analysis / internal reviews
- **Audits** – analytical procedures / tests (sampling) of details

Examples of Control Failures *Family Connections*

12

- **Failure of separation of duties** – one person held all financial information
- If too small for clear separation, should be **added oversight**
- **Audit Committee** - reports should be delivered by auditor, or confirmed with auditor
- **Hiring practices** - Background checks for key positions / positions of trust

Arc of Texas Special Needs Master Trust

13

- Dormant trust accounts breached
- Insufficient controls – execution / supervisory
- Existing controls reviewed, re-assessed, updated and implemented
- Controls should include required approvals, reports to identify unusual activities, required documentation, reconciliations, supervisory reviews, etc.
- *Accountants Report: “... procedures were followed in all other trust sub-account files ... documentation to support the transfers complied with our procedures for disbursements.”*

TCDD Internal Controls

14

- **Set-Up of TCDD Annual Budget(s)**
 - ✓ **Council** approves annual staff operations budget
 - ✓ **TCDD Staff** (Martha/Barbara) enter in TEA online accounting system (ISAS)
 - ✓ **TEA Budget** reviews, verifies, and “accepts” in system if all acceptable.
 - ✓ System allows current look-up ability of expenses vs. budgeted

Reimbursement Process

15

- **TCDD staff (Martha) reviews** and approves invoices for payment.
- **Roger** may approve if more than one approval required.
- **TEA Accounts Payable** reviews & “verifies” amounts (rates; dates of service, contract terms) and authorizes payment
- **Comptroller’s Office** reviews, initiates electronic payment if approved.

Travel Expenses

16

- **Council Member** provides Expense Summary
- TCDD Staff - **Koren or Celina** prepares “Travel Voucher”
- **Roger or Martha** reviews, verifies, approves reimbursement
- Copy emailed to TEA
- **TEA Travel Section** reviews, verifies, approves in accounting system
- **Comptroller’s Office** reviews, approves electronic reimbursement

Contract Procurements

17

- **State vendors** for most “routine” supply items. TEA advises about **non**-approved vendors, items, etc.
- **TEA** reviews requests for non-competitive contracts under \$5,000 (Attendants, Presenters, etc.)
- **TEA Contracts** assists with competitive bids required for all items \$5,000 or over.
 - Reviews bid specs
 - Guides process to review bids
 - Prepares final contracts, agreements, etc.

Grantee Reimbursements

18

- Grantees may request reimbursement for actual expenses and/or advance for up to 30 days anticipated expenses.
- Expected to submit requests at least quarterly; some monthly.
- **Grants staff** review each payment request (RAR)
- **Barbara** enters in accounting system
- **Martha** or **Roger** approves
- **TEA** reviews, verifies against encumbered amounts; authorizes.
- **Comptroller’s Office** processes electronic payment

Other Internal Controls

19

- **Personnel Actions**
 - ✓ Approved by Immediate Supervisor and Executive Director or Chair
- **Notices of Grant Awards (NOGA)**
 - ✓ Specialist approves all workplan and budget materials.
 - ✓ Grants Director reviews, verifies, recommends approval.
 - ✓ Executive Director signs electronically
 - ✓ Grantee signs electronically and returns

More – Internal Controls

20

- **Changes in Approved Grantee Budget**
 - Grantee request for change in line-items approved by **Project Director and Financial Administration Authority.**
 - Reviewed by **TCDD Grants Specialist and Grants Director.**
 - Final review and approval by **TCDD Executive Director**
- **Similar for Change in Budget Period or Change in Approved Activities**

21

Questions?

SOURCES

22

- COSO:
http://coso.org/documents/990025P_Executive_Summary_final_may20_e.pdf
- TSLA:
<https://www.tsl.state.tx.us/ld/funding/OnlineGrantHandbook/Int>
- University of Florida's Internal Control Checklist