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**Welcome to the 2021  
FRPA Conference!  
August 30 - September 2**



**Learning Objectives**

- 1. Recognize the importance of implementing effective internal controls**
- 2. Identify risk and where it originates**
- 3. Understand best practices on different internal control related concepts**



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**COSO**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of the following 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:

- AAA (American Accounting Association)
- AICPA (American Institute of Certified Public Accountants)
- FEI (Financial Executive International)
- IIA (Institute of Internal Auditors)
- IMA (Institute of Management Accountants)

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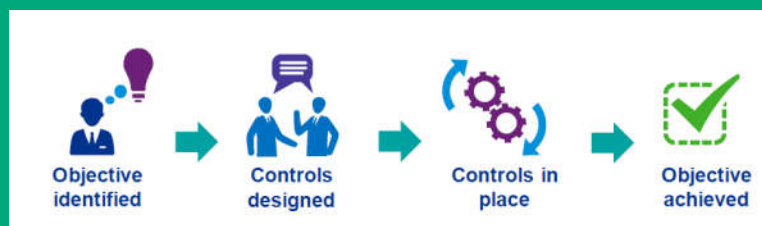
## U.S. Government Accountability Office

- The U.S. Government Accountability Office (GAO) is an independent, nonpartisan agency that works for Congress. Often called the "congressional watchdog," GAO examines how taxpayer dollars are spent and provides Congress and federal agencies with objective, reliable information to help the government save money and work more efficiently.
- On September 10, 2014, GAO issued its revision of *Standards for Internal Control in the Federal Government*, known as the "Green Book." This document sets the standards for an effective internal control system for federal agencies.

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## What is Internal Control?

Internal control is the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission.

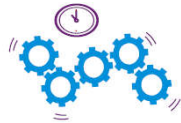


Source: U.S. Government Accountability Office (GAO) Green Book definition

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## How Does Internal Control Work?

Internal control helps an entity:



Run its operations  
efficiently and  
effectively



Report reliable  
information about  
its operations



Comply with  
applicable laws  
and regulations

Source: U.S. Government Accountability Office (GAO)

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## Why do you need Internal Control?

- Reduce opportunities for fraud and waste
- Help management make better informed decisions
- Establish performance standards
- Eliminate adverse publicity
- Protect county assets
- Promote effectiveness and efficiency of operations
- Ensure reliability of financial reporting
- Promote transparency and accountability
- Helps ensure compliance with applicable laws, regulations, policies, and procedures



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## Internal Control Example

You exercise internal control principles when you:

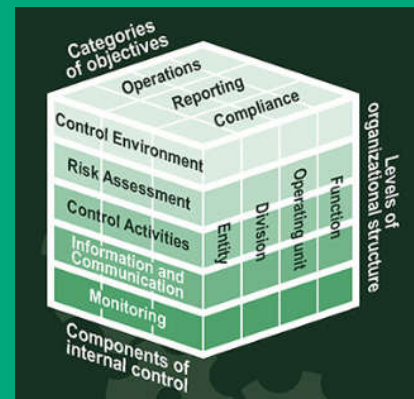
- Lock-up valuable belongings
- Keep copies of your receipts
- Review your paycheck
- Make travel plans

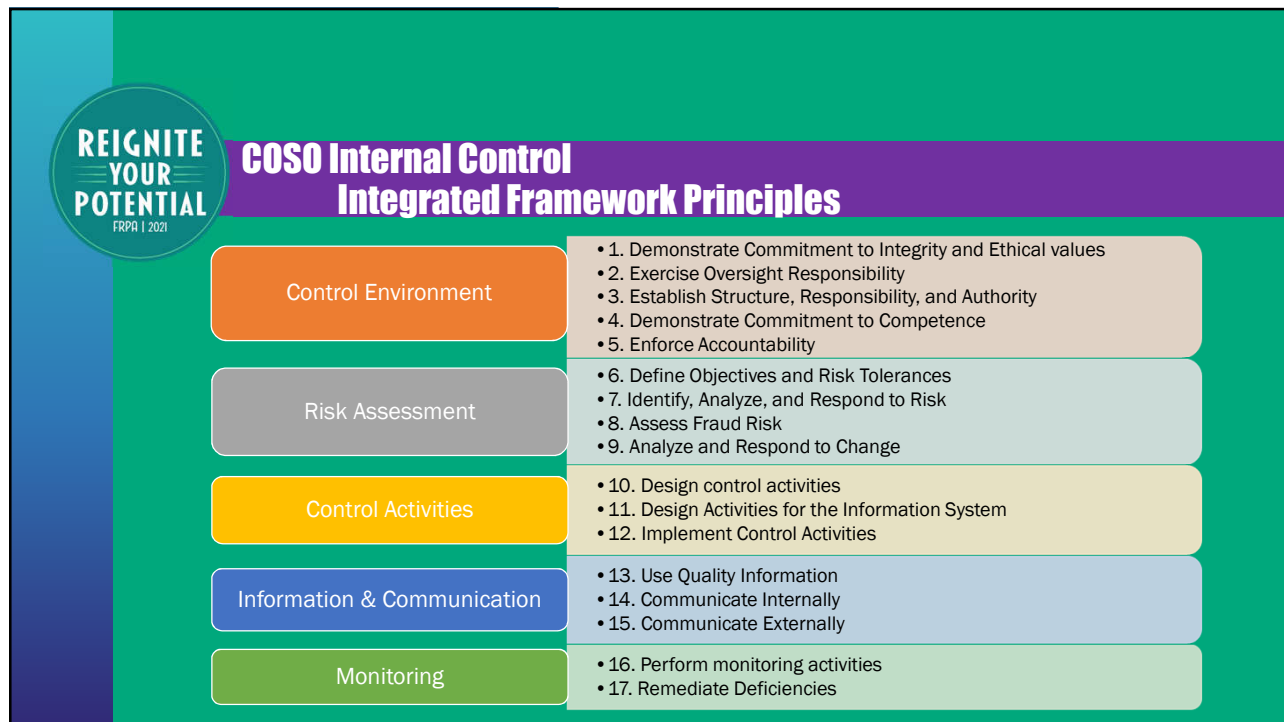


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## Five Components of Internal Control System

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring





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## Control Environment



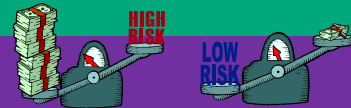
- Management's attitudes, awareness, and actions concerning the importance of its internal control functions. The control environment sets the tone of the organization, influencing the control consciousness of all its employees.
- Serves as the foundation for all other standards of internal control
- Effective organizations set a positive "tone at the top"
- Factors that influence an entity's control environment are:
  - management's philosophy and operating style
  - the way in which management assigns authority and responsibility;
  - the way management organizes and develops employees;
  - and the attention and direction provided by the governing board.

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## Control Environment Examples

- Set "tone at the top" by implementing and promoting ethical standards, integrity, and accountability policies
- Set mission, goals and objectives (strategic planning) so the organization knows what it is to accomplish
- Establish structure, organizational responsibilities, and reporting chains
- Hire competent and trustworthy staff members and provide necessary training for them
- Provide leadership and good governance by staying on top of operations and performance, and correcting problems when identified
- Emphasize that compliance with laws and regulations is the expectation for the organization
- Assure that goals and objectives are clear and not in competition with each other or compliance requirements
- Hold people accountable for their responsibilities.

## Risk Assessment



- The identification of factors or conditions that threaten the achievement of an organization's objectives and goals.
- 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?

## Why is a Risk Assessment Important?

- A risk assessment will help you:
  - Create awareness of hazards and risk.
  - Identify who may be at risk (e.g., employees, cleaners, visitors, contractors, the public, etc.).
  - Determine whether a control program is required for a particular hazard.
  - Determine if existing control measures are adequate or if more should be done.
  - Prevent injuries or illnesses, especially when done at the design or planning stage.
  - Prioritize hazards and control measures.
  - Meet legal requirements where applicable.

## Risk Assessment Questions

- What are our primary objectives?
- What must go right for us to succeed?
- What could go wrong?
- What events or conditions can prevent us from achieving these objectives?
- What assets do we need to protect?
- What information do we rely on to achieve our objectives? What are the threats to our obtaining this information?



## Risk Assessment Questions

- What typical decisions are made in our operations? Which of these decisions require the most judgments?
- What are our most complex activities?
- What potential legal liabilities can result from our operations?
- Where do we spend most of our money?
- What changes do we see on the horizon?
- How could someone steal from the organization?
- How could someone disrupt our operations?

## Control Activities

- The policies and procedures designed by management to help ensure that the organization's objectives and goals are not negatively impacted by internal or external risks.
- Help prevent or reduce the risks that can impede the accomplishment of objectives.
- Occur throughout the organization, at all levels, and in all functions.
- Should be designed to limit the potential negative effects of risks identified during the assessment process
- Includes approvals, authorizations, verifications, reconciliations, security of assets, reviews of operating performance, and segregation of duties.

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## 5 Key Internal Control Activities

1. Segregation of Duties
2. Access Controls
3. Authorization Control
4. Supervisory Oversight
5. Education/Awareness



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## Revenue Control Policy



- Cash receipting and accounts receivables should be subject to proper internal controls including:
  - Segregation of duties such as initiation and authorization of transactions, execution of transactions (receipting and disbursement), recording transactions, reconciliation, and maintaining custody.
  - Daily processing and timely deposit of receipts. Ideally, all funds should be deposited within 24 hours of receipt.
  - Timely reconciliation to applicable ledgers.
  - Physical security procedures. This is especially important for funds not deposited day of receipt.
  - Fraud reporting procedures.
  - Use of integrated receipt and accounting systems wherever practical and cost-effective.

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## Compensating Controls



- If duties cannot be segregated due to limited resources compensating controls must be put in place
- In cases where duties cannot be effectively separated, management can substitute increased review or supervision as an alternative control activity that can help prevent or reduce the risks.
- In an environment with a very limited number of employees, management needs to be involved in documenting, reviewing, and approving transactions, reports, and reconciliations.

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## Control Activities Scenario

What can be done to segregate duties in the following scenarios? If duties can't be segregated what compensating controls can be put in place?

1. John is a Manager at the pool. John perform cashier duties, reconciles the paperwork, and makes the daily deposit.
2. Jane is a recreation supervisor. She procures recreation equipment for the center on her p-card and directly manages the program that uses the equipment.



## Information & Communication

- Pertinent information must be captured, identified and communicated on a timely basis.
- Effective information and communication systems enable the organization's people to exchange the information needed to conduct, manage, and control its operations.
- Management must be able to obtain reliable information to determine and assess risk and communicate policies and other information

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## Information & Communication

- Establish relevant and reliable information systems to track operations, goal progress, and compliance;
- Broadly distribute information throughout the organization to ensure that critical information is delivered to the right staff in a timely way.
- Establish separate lines of communication, such as fraud and ethics hotlines, for confidential information. Inform employees of these separate reporting lines, how they operate, and how reports are handled;
- Establish both outgoing and incoming lines of communication with external entities.
- Stay aware of external events that could pose a risk.

## Monitoring

- Determines whether or not policies and procedures designed and implemented by management are being conducted effectively by employees.
- Helps ensure that significant control deficiencies are identified timely and rectified.
- Monitoring helps to identify these new risks and the need for new control procedures
  - Have controls become outdated, redundant, or obsolete?
- Monitoring occurs in the course of everyday operations, it includes regular management & supervisory activities and other actions personnel take in performing their duties.

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## Monitoring

- Establish a system of quality control over all processes such as supervisory reviews, approvals, and automated exception checks;
- Conduct routine reviews of actual performance compared to goals and budgets;
- Conduct separate management reviews of a function to determine whether it is working as intended, or controls need to be redesigned.
- Arrange for external audits and be responsive to findings;
- Track all corrective actions, and ensure that they are implemented and working as intended;
- Use monitoring to tie corrective actions back to improvements in Control Environment and Control Activity standards;
- Watch for signs of control problems.

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## Limitations on Internal Control


- No internal control framework can be 100% fraud proof
- Limitations include:
  - Management over-ride of controls (policies and procedures)
  - Collusion
  - Cost vs Benefit
    - Cost of the control should not cost more than the benefit it is expected to achieve
  - Human error
  - Inability to segregate duties based on number of employees (compensating controls)

## Questions ???






# Fraud



# Fraud Triangle

### The Fraud Triangle



**Opportunity**

**Internal Controls:**

- None in Place
- Not Enforced
- Not Monitored
- Not Effective

No Segregation of Duties  
Too Much Trust  
Poor "Tone at the Top"

**Rationalization**

- "I don't get paid what I'm worth!"
- "Everyone else is doing it!"
- "If they don't know I'm doing it, they deserve to lose the money"
- "I intended to pay it back"
- "Nobody will miss the money"

**Pressure / Motivation**

**External Pressure/Motivation:**

- Debt, Greed
- Lifestyle Needs
- Life Pressures
- Illicit Activities: Vices, Gambling, Drugs

**Internal Pressure/Motivation:**

- Pressure to Perform
- Too Much Work

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## How Does Fraud Occur?



- Poor internal controls
  - Lack of proper authorization
  - No separation of authorization, custody, record keeping
  - No independent checks on performance
  - Lack of clear lines of authority
  - Inadequate documentation
- Management override of internal controls
- Collusion between employees and management
- Poor or non-existent ethics policy
- Limited, unclear or no policies and procedures to direct department/division processes

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## Examples of Internal Control System Failure



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## Red Flags of Fraud



- High personnel turnover
- Low employee morale
- No supporting documentation for adjusting entries
- Incomplete or untimely bank reconciliations
- Increased customer complaints
- Write-offs of inventory shortages with no attempt to determine the cause
- Unrealistic performance expectation
- Rumors of conflicts of interest
- Using duplicate invoices to pay vendors
- Frequent use of sole-source procurement contracts

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## Red Flags of Fraud



- Borrowing money from co-workers
- Creditors or collectors appearing at the workplace
- Gambling beyond the ability to stand the loss
- Excessive drinking or other personal habits
- Easily annoyed at reasonable questioning
- Providing unreasonable responses to questions
- Refusing vacations or promotions for fear of detection
- Bragging about significant new purchases
- Carrying unusually large sums of money
- Rewriting records under the guise of neatness in presentation

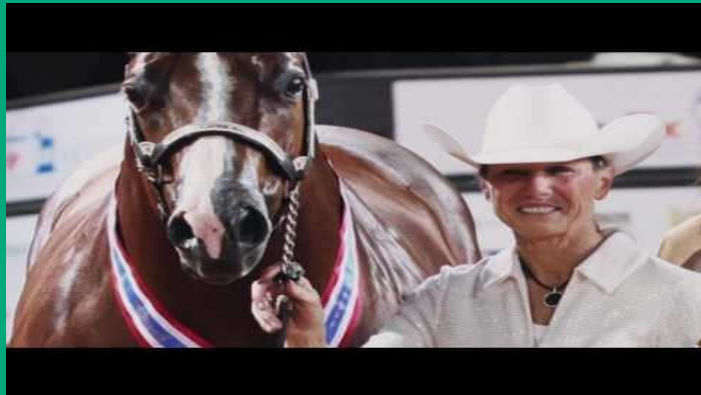
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## Real World Examples

- City of Fort Lauderdale Department of Parks and Recreation Employee Sentenced to Fifteen Months in Prison
- Former Clearwater Parks and Recreation supervisor arrested, accused of pocketing \$148,000
- Martin County recreation supervisor accused of grand theft may have used thousands in county money for own profit
- Park Employee Arrested, Charged
- Utah State Parks manager fired, under investigation for fraud, warrant states
- Former Fort Walton Beach finance director pleads no contest to felony credit card charges
- Former Philadelphia Parks & Recreation Official Sentenced to Over One Year in Prison for Fraud and Embezzlement

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## All the Queen's Horses



Link to Video: <https://youtu.be/q57ZKn-C-To>



## In Summary

- Understand the Five Components of Internal Control
- Use the 17 principals to determine if your internal control system is effective.
- Make sure you have up-to-date policies and procedures
- Ensure authorization limits are communicated within your department
- Ensure all assets (especially cash) are safeguarded at all times
- Ensure approval signatures are visible (legible) on all required documentation
- Make sure data is **only** accessible by authorized personnel
- Understand your department/function's risks




## References

- *Standards for Internal Control in the Federal Government*, known as the "Green Book," sets the standards for an effective internal control system for federal agencies.
  - <http://www.gao.gov/greenbook/overview>
- COSO's *Internal Control –Integrated Framework* for a government environment.
- Association of Government Accountants
  - <https://www.agacgfm.org/About.aspx>
- Government Finance Officers Association
  - <https://www.gfoa.org>

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# Questions ???



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**PALM BEACH COUNTY**  
**PARKS & RECREATION**

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A rectangular graphic with a blue-to-teal gradient background and a green border. In the center is a dark teal circle containing the text "REIGNITE YOUR POTENTIAL" in white, with "FRPA | 2021" below it. At the bottom left is the FRPA logo, and at the bottom right is a call to action to visit frpa.org.

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