

Internal Controls Are Everyone's Business

Katie Armstrong, CPA, CGFM, CFE

Local Government Audit

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TENNESSEE COMPTROLLER OF THE TREASURY



Agenda

- What are internal controls?
- Why are they important?
- What are your requirements and responsibilities?
- Components of an Internal Control System
- Common internal control deficiencies in Tennessee school systems

What are internal controls?

- **Merriam-Webster** - a system or plan of accounting and financial organization within a business comprising all the methods and measures necessary for safeguarding its assets, checking the accuracy of its accounting data or otherwise substantiating its financial statements, and policing previously adopted rules, procedures, and policies as to compliance and effectiveness

What are internal controls?

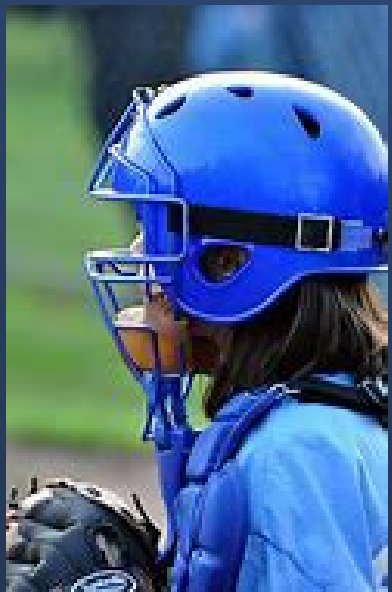
- **COSO** - process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
 - Operations – Effectiveness and efficiency
 - Reporting – Reliability of financial reporting
 - Compliance – Compliance with applicable laws and regulations

COMMON
SENSE





Regular	
Resulting Balances(\$)	
50,324.99	✓
50,000.04	✓
0.04	✓
2,831.04	✓
2,201.04	✓
2,301.04	✓
70.04	✓
415.04	✓





Why Do We Talk About Them?

Former Gibson County Recovery Court Coordinator Indicted

Monica Bridges Improperly Paid for Hours Not Worked

Wednesday, May 03, 2023 | 09:00am

An investigation by the Tennessee Comptroller's Office has resulted in the indictment of Monica Bridges, who served as the full-time coordinator of the Gibson County Recovery Court from October 2019 until her resignation in September 2022.

The Gibson County Recovery Court allows non-violent offenders with substance abuse issues to obtain treatment while under close legal and clinical supervision. The investigation began after citizens reported questionable time practices and other concerns about the court's operations.



Former Obion County Central Baseball Booster Club Treasurer Indicted

Friday, October 07, 2022 | 11:00am

An investigation by the Tennessee Comptroller's Office has resulted in the indictment of Allison Baldwin, the former treasurer of Obion County Central High School's Rebel Sliders Baseball Booster Club. Baldwin served as the club's treasurer from June 2018 through June 2021. The investigation began after Obion County school officials reported missing funds.

Investigators determined that Baldwin stole at least \$9,159.64 from the booster club by writing unauthorized checks payable to "Cash," making unauthorized ATM withdrawals, and making a personal purchase using the club's debit card. Baldwin admitted to taking the majority of this money for personal use.



Bradley Central High School Band Booster Club Member Indicted

Tuesday, February 28, 2023 | 09:00am

An investigation by the Tennessee Comptroller's Office has resulted in the indictment of Crystal Lynn, who served as the concession manager for the Bradley Central High School Band Booster Club in Cleveland, Tennessee.



Former Marshall County Elementary Bookkeeper Indicted for Theft

Jennifer Foster worked at Oak Grove Elementary School

Tuesday, April 18, 2023 | 09:00am

An investigation by the Tennessee Comptroller's Office has resulted in the indictment of Jennifer Foster, a former bookkeeper at Oak Grove Elementary School in Lewisburg.

Investigators determined that Foster stole \$12,325.46 from the school by removing and keeping cash collected for the school's sports, chorus clubs, field trips, and Chromebook insurance payments from students who lost or damaged computers. The



Former Carroll County Volunteer Fire Chief and Wife Indicted for Theft

Thursday, May 04, 2023 | 10:00am

An investigation by the Tennessee Comptroller's Office has resulted in the indictments of William and Malisa Smith, who served respectively as the fire chief and treasurer for the Carroll County Volunteer Fire Department District 8 - Mixie station.

Comptroller investigators determined the Smiths stole at least \$30,150.86 from the volunteer fire department beginning in April 2014 until they resigned in March 2020.

The Smiths misappropriated the money from the department's bank account and from a separate credit union account.

The Smiths made unauthorized debit card transactions, check disbursements, and cash withdrawals. These included purchases at various retail stores; personal lodging and travel expenses; payments for food and alcohol; fuel purchases; and payments for various personal services. Department members confirmed the transactions did not benefit the department.



Investigation Details Several Issues within Newport Utilities

Problems Center Around Installation of Broadband and General Operations

Wednesday, November 30, 2022 | 09:00am

The Tennessee Comptroller's Office has revealed several issues within Newport Utilities (utilities) which have impacted broadband services in the area.

The investigation, working in conjunction with the Tennessee Comptroller of Inspector General, has identified several issues with Newport Utilities (utilities) which have impacted broadband services in the area.



Former Director of Meigs Co. Emergency Communications District Misappropriated More than \$1 Million

Friday, October 11, 2022 | 09:00am

An investigation by the Tennessee Comptroller's Office has revealed that the former director of the Meigs County Emergency Communications District misappropriated at least \$1,084,188.60 between July 2011 and February 2021.

The investigation has been communicated to the district Attorney General of the 9th Judicial; however, the case is expected to be filed due to the former director's actions.

Investigators determined the former director misappropriated the majority of the district's money by cashing district checks that were written to pay these





Why Do We Need Internal Controls?

- Public Trust
- Reduce opportunities for fraud and waste
- Help management make better informed decisions
- Protect government assets
- Promote effectiveness and efficiency of operations
- Ensure reliability of financial reporting

Requirement for Internal Controls

9-18-102. Internal controls — Management assessment of risk.

(a) Each agency of state government and institution of higher education along with each county, municipal, and metropolitan government shall establish and maintain internal controls, which shall provide reasonable assurance that:

- (1) Obligations and costs are in compliance with applicable law;
- (2) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- (3) Revenues and expenditures are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

(b) To document compliance with the requirements set forth in subsection (a), each agency of state government and institution of higher education shall annually perform a management assessment of risk. The internal controls discussed in subsection (a) should be incorporated into this assessment. The objectives of the annual risk assessment are to provide reasonable assurance of the following:

- (1) Accountability for meeting program objectives;
- (2) Promoting operational efficiency and effectiveness;
- (3) Improving reliability of financial statements;
- (4) Strengthening compliance with laws, regulations, rules, and contracts and grant agreements; and
- (5) Reducing the risk of financial or other asset losses due to fraud, waste and abuse.

Internal Control Responsibility

Governing Body (Ultimately Responsible)

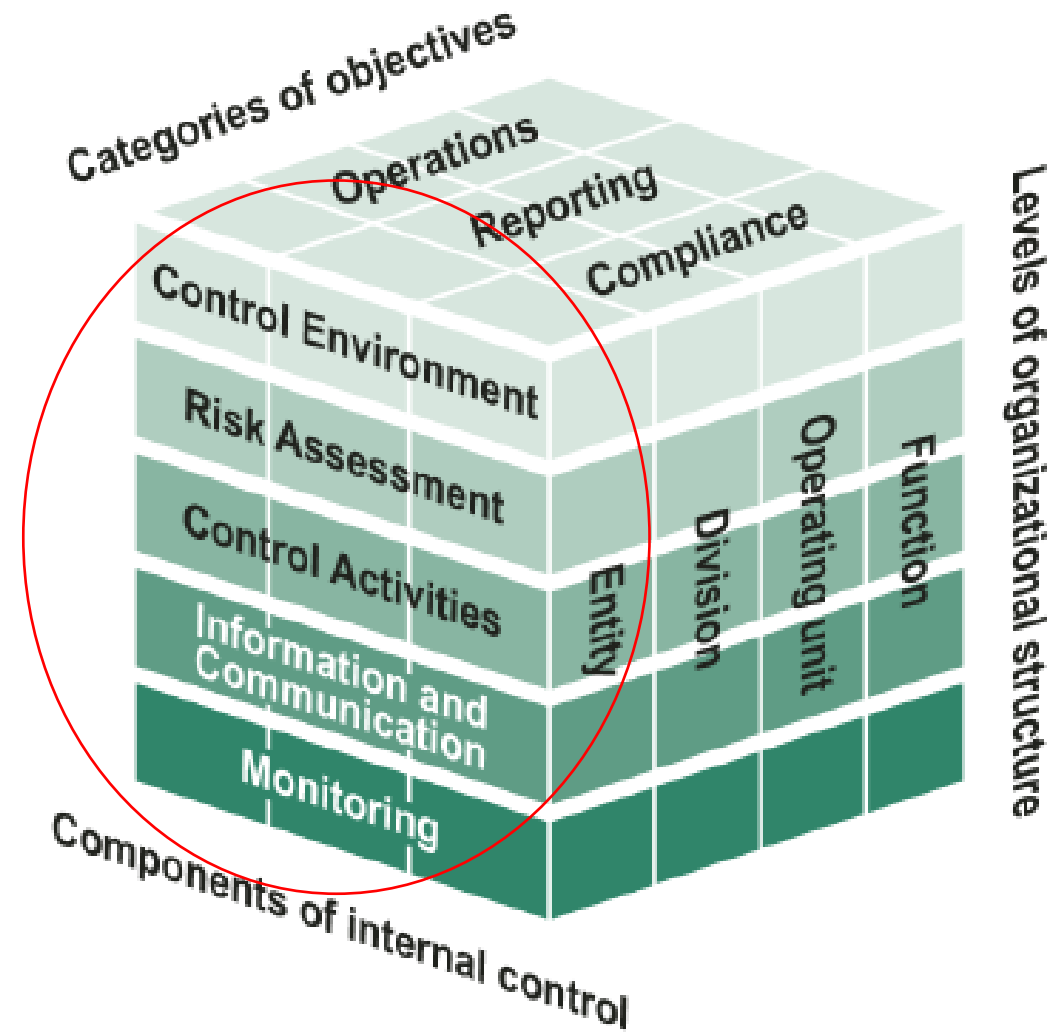
- Audit Committee
(Assists Governing
Body)

Management (Primarily Responsible)

- Internal Audit
(Assists
Management)

External Audit
(Rely on Internal
Controls to
support opinion)

Green Book Framework



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Components of Internal Control



Control Environment



Risk Assessment



Information & Communication



Monitoring

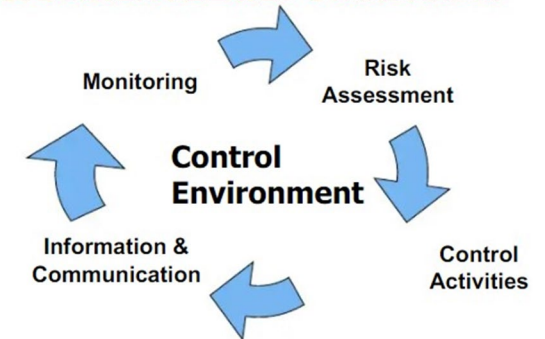


Existing Controls (Control Activities)

Control Environment

- Core of any system of internal control
- Sets the tone for the entire organization
- Factors include:
 - Integrity
 - Ethical values
 - Competence of employees at all levels
 - Management's operating style and attitude toward controls

COSO'S INTERNAL CONTROL FRAMEWORK... FIVE INTER-RELATED STANDARDS:



Risk Assessment

- Risks are INTERNAL and EXTERNAL events that threaten the accomplishment of objectives.
- Process of identifying, evaluating, and deciding how to manage these events
- Consideration of Fraud Risk
- Consideration of Operational Risk

Risk – What is it?

- Anything **BAD** that might happen to prevent us from achieving our objectives.
- Real Life examples:
 - Nashville Flood – May 2010
 - COVID-19 Pandemic – March 2020
 - Texas power crisis – February 2021



Responses to Risk



Ignore It

Live With It

Attempt to Manage It

Communication & Information

- Adequate information must be captured, identified, and communicated on a timely basis.
 - Up/down reporting channels within organization
 - Official entity memos for certain information
- Just a reminder....

ACTIONS SPEAK LOUDER THAN WORDS

Monitoring

- Monitoring occurs in the course of everyday operations, it includes regular management & supervisory activities and other actions personnel take in performing their duties.
- Helps ensure things are working as intended or allow someone to notice issues
 - computer edits, monthly variance report, time sheet supervisory sign-offs

Control Activities

- Control Activities consist of the specific policies and procedures put in place to mitigate the risk of error, noncompliance, and fraud.
- Involves things that most people think of as internal controls:
 - Segregation of Duties
 - Approvals & Authorizations
 - Documentation
 - Physical control over assets
 - Independent check on performances
 - IT Security

Examples of Internal Controls

Preventive Controls (before):

- Purchase Orders
- Segregation of Duties
- Safeguarding Assets
- Computer Passwords
- Computer and Service Backups

Detective Controls (after):

- Bank Reconciliations
- Physical Inventories
- Monitoring Expenditures against budget
- Internal/External Audit

Reasons Why Controls Do Not Always Work

- Inadequate knowledge of policies or governing regulations.
“I didn’t know that!”
- Inadequate separation of duties
“We trust Jane Doe who does all of these things.”
- Substance over form
“You mean I’m supposed to do something besides sign it?”

Limitations of Internal Controls

- No matter how well designed and operated, internal control can only provide REASONABLE assurance of achieving control objectives.
- Errors may occur in designing, maintaining, or monitoring controls.
- Additionally, internal controls can be circumvented by inappropriate management override.
- COLLUSION!!

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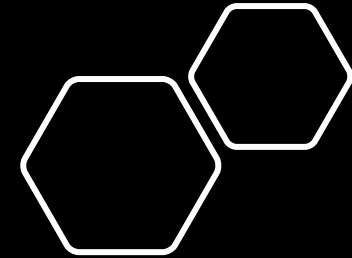


Common Internal Control Deficiencies in Tennessee School Systems

- Lack of Segregation of Duties
- Lack of supporting documentation
- Budget Deficiencies
- Lack of reconciliations or Reconciliations not completed timely
- Material audit adjustments required for proper financial statement presentation
- Capital Assets Deficiencies
- Accrued Leave Deficiencies
- Fund Deficits



Questions?



Katie Armstrong
Assistant Director of Administration
Local Government Audit
Katie.Armstrong@cot.tn.gov
615-401-7841