

Understanding Internal Controls and Implementing a Self-Assessment

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Agenda

- Define Key Terms
- Regulations Requiring Internal Controls
- Importance of Internal Controls
- Components of Internal Controls
- Questions to Ask
- Putting it All Together
- Resources



Key Terms

Key Terms

- Internal Controls: A process that ensures a non-Federal entity's objectives are met in terms of operational effectiveness, efficiency, reliable financial reporting and compliance with laws and rules.
- Self-Assessment: The act or process of analyzing or evaluating oneself or one's actions.
- Control Self-Assessment: A process by which a department examines and improves existing internal controls and/or implements new internal controls to mitigate risks associated with a process or function.



Regulations Requiring Internal Controls

Tenn. Code Ann. § 9-18-102(a)

- **(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.

Tenn. Code Ann. § 9-18-102(b)

- **(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.

2 C.F.R. § 200.302(b)(4)

- Effective control over, and accountability for, all funds, property and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes.

2 C.F.R. § 200.303 Internal Controls

- The non-Federal entity must:
 - (a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

2 C.F.R. § 200.303 Internal Controls

- The non-Federal entity must:
 - (b) Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards.
 - (c) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of the Federal awards.
 - (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
 - (e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state, local and tribal laws regarding privacy and responsibility over confidentiality.



Importance of Internal Controls

Internal Controls

- Reduce opportunities for fraud, waste, and abuse
- Help ensure compliance with laws, regulations, policies and procedures
- Promote effective and efficient operations
- Reliability of financial reporting
- Timely identification and correction of errors
- Protect assets
- Improved communications
- Reduce audit findings



Common Audit Findings

- Lack of segregation of duties
- Lack of supporting documentation
- Lack of reconciliations
- Material audit adjustments
- Accrued leave deficiencies



Why

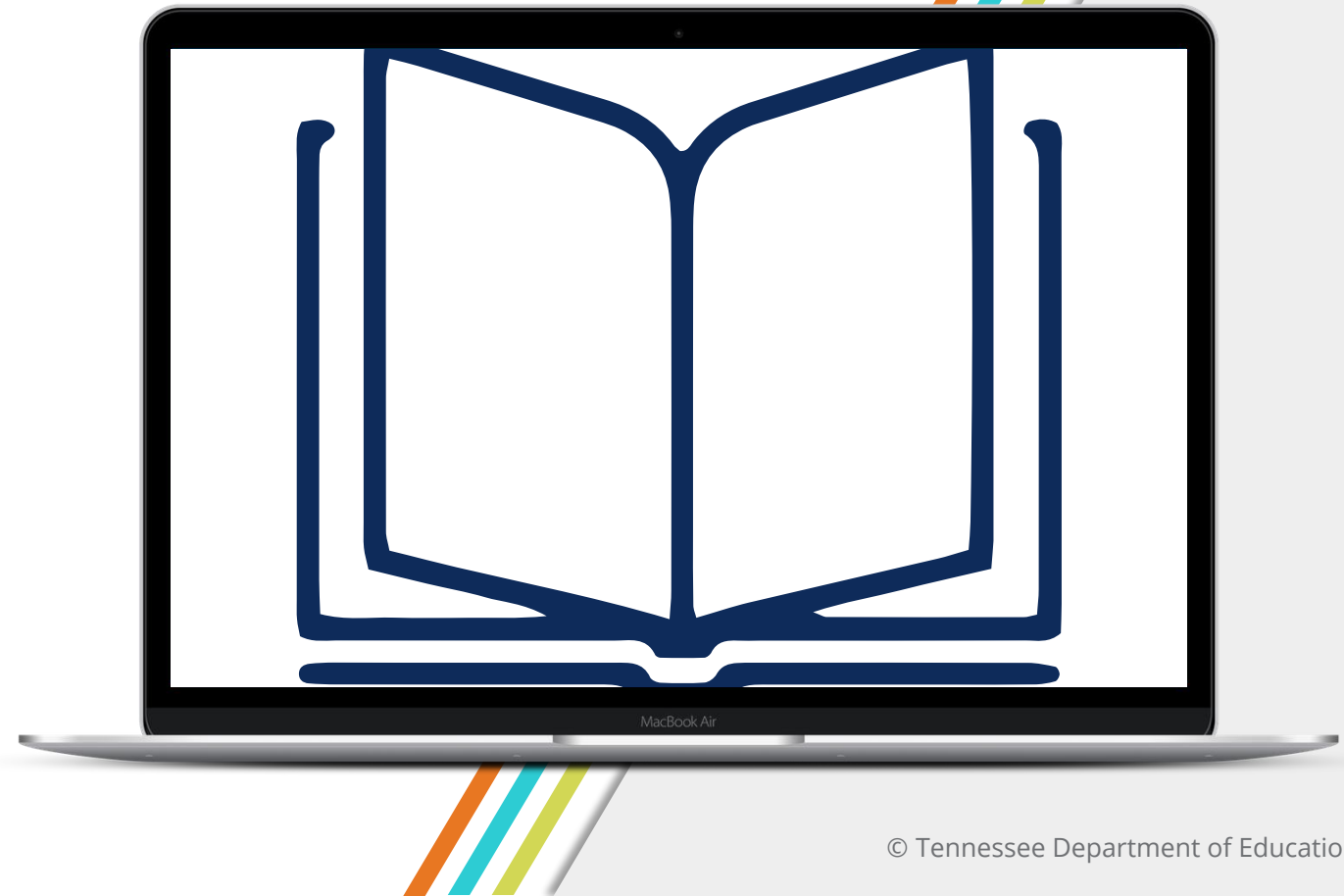
- Lack of knowledge
 - “I didn’t know that!”
- Lacking segregation of duties
 - “I do everything!”
- Going through the motions
 - “I’m supposed to check that?”



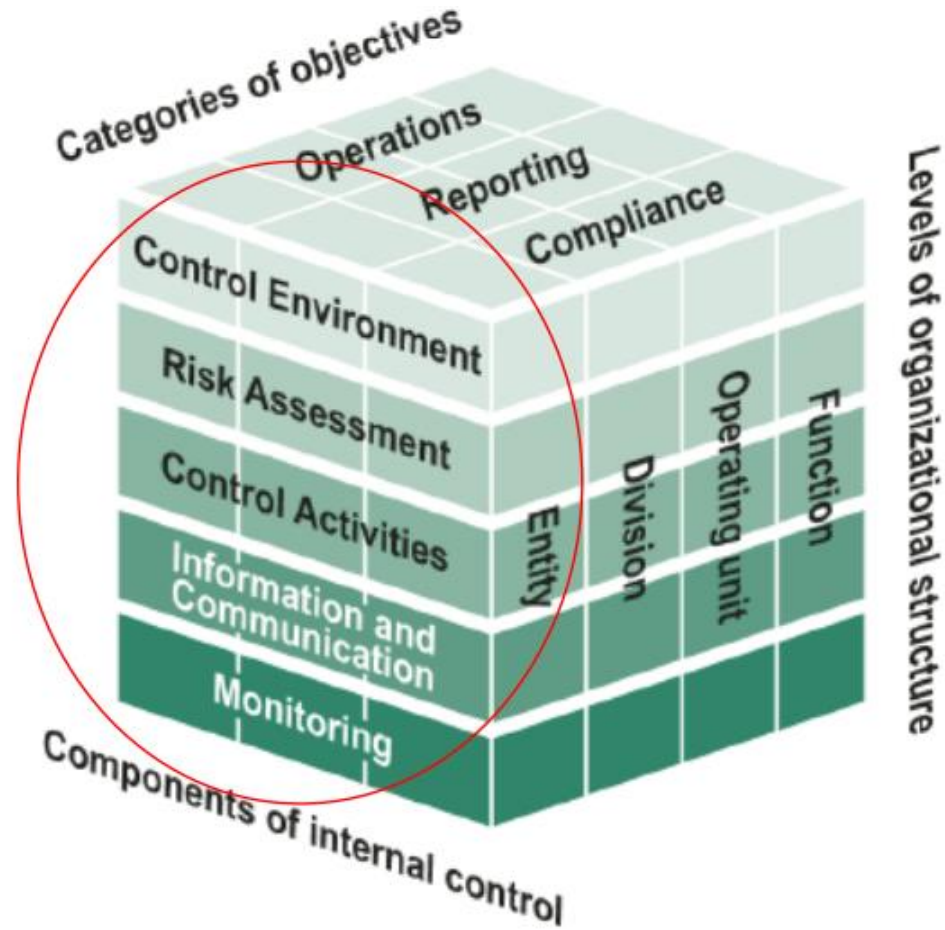
Components of Internal Control

Guidance Documents

- “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States (Green Book); or
- “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).



Green Book Framework



Control Environment

- The foundation for an internal control system that provides the discipline and structure to help an entity achieve its objectives.
 - Sets the tone that compliance is critical for success
 - Influences the control consciousness of staff
 - Foundation for all other components
 - Updated organizational chart
 - Clear job descriptions for all staff
 - Competent employees
 - Clear and up-to-date procedures



Risk Assessment

- Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.
 - Identification and analysis of relevant risks
 - Includes both internal and external risks
- **REQUIRED** if you receive FEDERAL Funds



Control Activities

- The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system which includes the information system.
 - Training
 - Reconciliations
 - Segregation of duties
 - Authorizations and approvals
 - Documentation
 - Physical control over assets
 - Security measures



Information and Communication

- The quality of information management and personnel communicate and use to support the internal control system.
 - Ensures the right people have the right information at the right time.
 - Includes both internal and external communication
 - Identifying the information needed to perform duties



Monitoring

- Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.
 - Everyday management and supervisory activities
 - Helps ensure things are working as intended or identifies issues
 - Spot checks
 - Annual single audit



COSO Principles





Questions to Ask

Control Environment - Questions to Ask

- Is there an updated organizational chart that clearly identifies lines of reporting?
- Are all employees aware of their job responsibilities?
- Does management hold personnel accountable?
- Does management set a good example and communicates high expectations?
- Does management understand the policies covering potential conflicts of interest?
- Has there been turnover in key personnel?
- Has the accounting software changed?



Risk Assessment - Questions to Ask

- Does the organization perform a risk assessment?
- Is management aware of the results of monitoring, audits, and review; and considers related risk of noncompliance?
- Has management identified, analyzed and appropriately acted on risks resulting from internal and external reviews that were performed throughout the year?
- Does management have organizational checks and balances in place and respond to fraud risk (minimizing the potential for fraud, waste, and abuse)?



Control Activities - Questions to Ask

- Are policies and procedures reviewed annually and updated as needed?
- Policies and procedures should be documented to provide a basis for reviews, follow-up evaluations and audits. Policies should include but not be limited to the following:
 - Cash Management
 - Inventory/Equipment
 - Procurement
 - Time and Effort
 - Travel
- Have procedures been communicated to the staff as changes occur?



Control Activities - Questions to Ask (continued)

- Does management ensure appropriate levels of segregation of duties among staff to reduce the risk of fraud, waste, and abuse?
- Does management ensure reconciliations include the following:
 - Involves the comparison of internally prepared documents (purchase orders, general ledger) to an independent source (invoices, bank statement)
 - Determines the completeness, accuracy, and/or validity of transactions or information
- Does management perform inventory checks?



Information and Communication- Questions to Ask

- Are communications received from internal and external sources addressed in a timely manner?
- Are effective internal and external communication channels established?
- Does management ensure federal requirements and/or changes to federal requirements are shared throughout the organization?
- Is the accounting system capable of classifying, separating, tracking, and identifying federal transactions? state transactions?



Information and Communication- Questions to Ask (continued)

- Does management ensure the accounting system provides information when needed and utilized the following:
 - Adequate source documentation to support amounts
 - Accurate information is accessible to those who need it?
- Is there a record retention system established to ensure accounting records and documents are properly retained?



Monitoring – Questions to Ask

- Does the board and/or management provide oversight over internal controls (reviewing financial statements, significant contracts, misappropriation of funds)?
- Does management have a documented process for monitoring compliance with federal, state, and grant guidelines and regulations?
- Does management regularly evaluate control activities to ensure that they are still appropriate, implemented and working as intended?
- Are financial reports prepared in a timely and consistent manner?



Monitoring – Questions to Ask (continued)

- Are the following financial functions performed:
 - Spot-checking transactions
 - Reconciliations of accounting reports, bank statements, and payroll journals;
 - Budgets are compared to actuals
 - Compare charges for services billed to related services outlined in contracts
 - Review of trial balances
- If applicable, did management ensure all findings identified in the most current audits were addressed timely?



Putting it All Together

Putting It All Together



1

Identify Areas for Improvement

- Audits
- Monitoring
- Compliance Areas



2

Review Documentation

- Procedures
- Job Descriptions
- Record



3

Interviews and Discussions

- Staff
- Programmatic
- Purchasing
- Accounting



4

Identify Risk

- Risk Mapping
- Prioritize most likely to happen and biggest impact

Putting it All Together



5

Make Corrections

- Include the right staff
- Draft plan to address problem



6

Monitor Corrective Action

- Is it working
- Is it timely



7

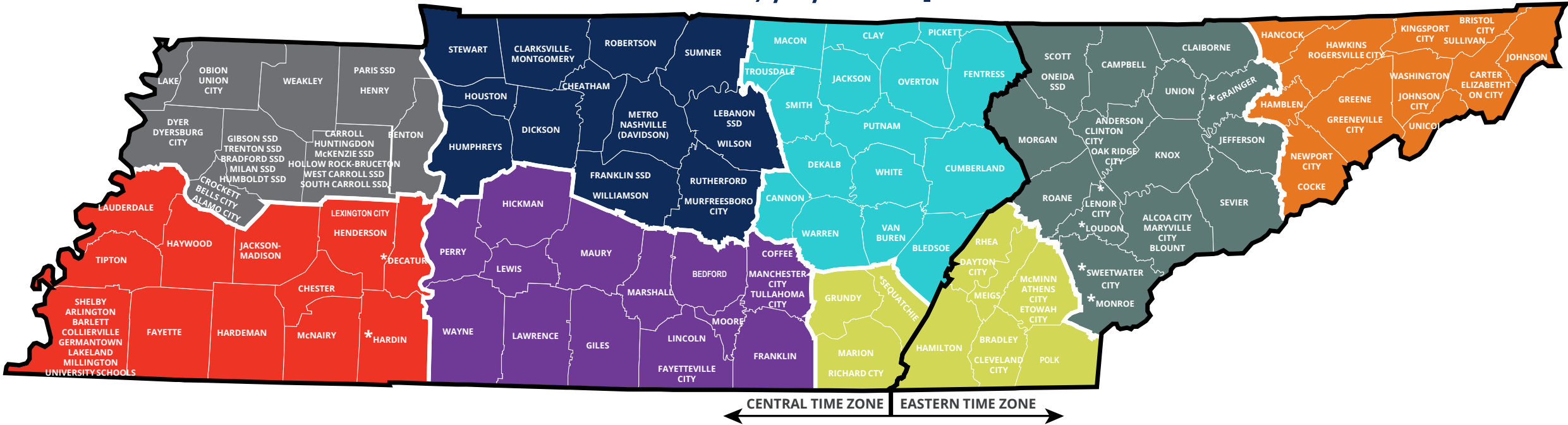
Repeat

- This is an ongoing process

Resources

Regional Finance Consultant District Map

As of 7/1/2024



Northwest	Southwest	Mid Cumberland	Upper Cumberland	South Central	Southeast	East TN	First TN
Joshua Dehnz	Meribeth Carpenter	Rob Mynhier	Brian Trisdale	Jasmine Taylor	Taffe Bishop	Shelby Ownbey	Jill Lewis
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*Districts that are assigned to a finance consultant in a different CORE region.

Regional Finance Consultant District Assignment

As of 07/1/2024

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Districts: Alamo City Bells City Benton County Bradford SSD Carroll County Crockett County Dyer County Dyersburg City Gibson County SSD Henry County Hollow Rock-Bruceton SSD Humboldt SSD Huntingdon SSD Lake County McKenzie SSD Milan SSD Obion County Paris SSD South Carroll SSD Trenton SSD Union City Weakley County West Carroll SSD	Districts: Achievement Schools Arlington SSD Bartlett SSD Chester County Collierville SSD Fayette County Germantown SSD Hardeman County Haywood County Henderson County Jackson-Madison County Lakeland SSD Lauderdale County Lexington City McNairy County Millington Shelby County Tipton County University Schools WTSD	Districts: Cheatham County Charter Schools Commission Dickson County Dept. of Children Services Dept. of Corrections Franklin SSD Houston County Humphreys County Lebanon SSD Metro-Nashville Montgomery County Murfreesboro City Robertson County Rutherford County Stewart County Sumner County TN School for Blind Williamson County Wilson County *Jackson County	Districts: Alvin York Institute Bledsoe County Cannon County Clay County Cumberland County DeKalb County Fentress County Macon County Overton County Pickett County Putnam County Smith County Trousdale County Van Buren County Warren County White County *Sequatchie County	Districts: Bedford County Coffee County Fayetteville City Franklin County Giles County Hickman County Lawrence County Lewis County Lincoln County Manchester City Marshall County Maury County Moore County Perry County Tullahoma City Wayne County *Decatur County *Hardin County	Districts: Athens City Bradley County Cleveland City Dayton City Etowah City Grundy County Hamilton County Marion County McMinn County Meigs County Polk County Rhea County Richard City *Lenoir City *Loudon County *Monroe County *Sweetwater City	Districts: Alcoa City Anderson County Blount County Campbell County Claiborne County Clinton City Jefferson County Knox County Maryville City Morgan County Oak Ridge Oneida SSD Roane County Scott County Sevier County TSDK Union County	Districts: Bristol City Carter County Coker County Elizabethton City Greene County Greeneville City Hamblen County Hancock County Hawkins County Johnson City Johnson County Kingsport City Newport City Rogersville City Sullivan County Unicoi County Washington County *Grainger County

*Districts that are assigned to a finance consultant in a different CORE region.

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Resources

- Tennessee Department of Education [Education \(tn.gov\)](https://www.tn.gov)
- Tennessee State Board of Education [Rules, Policies and Guidance \(tn.gov\)](https://www.tn.gov)
- ePlan TDOE Resources [ePlan](#)
- Tennessee Comptroller of the Treasury [TN Comptroller of the Treasury; Manuals \(tn.gov\)](https://www.tn.gov)
- Tennessee Consolidated Retirement System [TCRS](#)
- Tennessee General Assembly [Legislation - TN General Assembly](#)
- County Technical Assistance Service (CTAS) Record Retention [CTAS - Department of Education Records](#)
- Electronic Code of Federal Regulations [eCFR :: Home](#)
- Tennessee Code Annotated [Tennessee Code Unannotated – Free Public Access | Main Page \(lexis.com\)](#)
- Standards for Internal Control in the Federal Government (Green Book) [The Green Book | U.S. GAO](#)
- Internal Control - Integrated Framework [Internal Control | COSO](#)



Fraud, Waste or Abuse

Citizens and agencies are encouraged to report fraud, waste, or abuse in State and Local government.

NOTICE: This agency is a recipient of taxpayer funding. If you observe an agency director or employee engaging in any activity which you consider to be illegal, improper or wasteful, please call the state Comptroller's toll-free Hotline:

1-800-232-5454

Notifications can also be submitted electronically at:

comptroller.tn.gov/hotline



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