



Standards for Controls in Commonwealth Agencies

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Learning Objectives

- Introduction to Internal Controls
- Steps for Successful Implementation of the Green Book in the Commonwealth
- Standards for Internal Controls
 - Categories of Objectives
 - Components of Internal Controls
 - 17 Principles of Internal Control
 - Levels of Organization Structure



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Timeline

- Effective date of Management Directive 325.12 – July 1, 2015
- First related deliverables due to the Office of the Budget, Office of Comptroller Operations, Bureau of Quality Assurance by September 30, 2017
 - Ready to go live July 1, 2016
 - Period of evaluation July 1, 2016 – June 30, 2017
- Assurance statements due annually on September 30th for the period July 1, 2016 through June 30, 2017



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What are Internal Controls?

Internal Controls

- Process used by management to help an entity achieve its objectives
- Helps an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations

Internal Controls (continued)

What do you worry about going wrong?

What steps have been taken to assure it doesn't?

How do you know things are under control?

Internal Controls (continued)

- Everyone uses internal controls in their personal life
 - Balance checkbook
 - Prenumbered checks
 - Keep ATM PIN number separate from the card
 - Keep copies of tax returns
 - Secure valuable belongings
 - Purchase insurance

Why Do We Have to Implement Internal Controls?

- Management Directive 325.12
 - Establish policies, responsibilities, and procedures for implementing effective internal controls
- Policies must be in compliance with **Standards for Internal Control in the Federal Government**
 - Commonly referred to as the Green Book
- Department Benefits
 - Reduction and prevention of errors
 - Protection of resources
 - More efficient audits



Limitations of Internal Controls

- Provides reasonable, **not absolute assurance**, that the entity's objectives are being achieved
- Specific Limitations
 - Unrealistic objectives
 - Faulty human judgment
 - Errors and mistakes
 - Controls may fail due to breakdowns
 - Employee misunderstanding, carelessness, or fatigue
 - Management override of internal controls
 - Controls circumvented by collusion
 - External events beyond an entity's control



What are Deficiencies in Internal Control?

- Introduction to:
 - Deficiency
 - Significant Deficiency
 - Material Weakness
 - Examples



**What are Deficiencies in Internal Control?
(continued)**

- Deficiency
 - Design, implementation, or operation of a control does not allow management or personnel, in the normal course of performing their assigned functions, to achieve control objectives and address related risks
 - Examples:
 - Inadequate design of internal control over a significant account or process
 - Inadequate segregation of duties within a significant account or process
 - Employees or management who lack the qualifications for their assigned function
 - Absence of an internal process to report deficiencies in internal control to management on a timely basis



**What are Deficiencies in Internal Control?
(continued)**

- Significant Deficiency
 - A deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance
 - Examples:
 - Controls over nonroutine and nonsystematic transactions
 - Controls over the period-end financial reporting process
 - Antifraud programs and controls
 - Controls over the selection and application of accounting principles



**What are Deficiencies in Internal Control?
(continued)**

- Material Weakness
 - A deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis
 - Examples:
 - Ineffective oversight of the entity's financial reporting and internal control
 - Restatement of previously issued financial statements to reflect the correction of a material misstatement
 - Ineffective regulatory compliance function
 - Identification of fraud on the part of senior management
 - An ineffective control environment



What is the Green Book?

- Federal government's implementation of internal controls framework
- COSO Framework
 - Developed by The Committee of Sponsoring Organizations (COSO) of the Treadway Commission
 - Comprehensive framework and guidance for internal controls
 - Organized in 1985 to sponsor the National Commission on Fraudulent Financial Reporting
 - Independent, private-sector initiative that studied factors that can lead to fraudulent financial reporting



What is the Green Book? (continued)

- National Commission was sponsored jointly by five major professional associations
 - American Accounting Association (AAA)
 - American Institute of Certified Public Accountants (AICPA)
 - Financial Executives International (FEI)
 - Institute of Internal Auditors (IIA)
 - National Association of Accountants (now the Institute of Management Accountants (IMA))



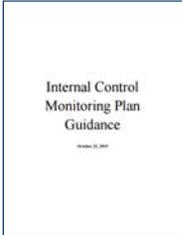
Successful Implementation of the Green Book

- 5 components and 17 principles are **REQUIRED** for compliance with the Green Book
- Documentation is key
- Commonwealth Developed Guides
 - Monitoring Guide
 - Assessment Template
 - FAQ Guide
 - Assurance Statement



How Does an Entity Implement the Green Book?

Monitoring Guide



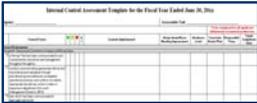
Internal Control Monitoring Plan Guidance
Version 02/2015

- Provides guidance on the following:
 - Required Green Book components
 - Developing an oversight body
 - Techniques to identify assessable units
 - Internal and external monitoring plan guidance



How Does an Entity Implement the Green Book?

Assessment Template



Internal Control Assessment Template for the Fiscal Year Ending June 30, 2015

- Used for each assessable unit within the Agency
- Documents internal control system
- Includes 5 components and 17 principles of internal control
- Encouraged to add controls relevant to address the unique makeup of their agency



How Does an Entity Implement the Green Book?

Annual Statement of Assurance



Annual Statement of Assurance

- Completed annually
 - First due September 30, 2017
- Submitted to Bureau of Quality Assurance
- Agency Head signs and certifies:
 - Responsible for design, implementation, and operating an effective internal control system
 - Agency has evaluated internal controls
 - Agency has developed and/or updated internal and external monitoring plans



How Does an Entity Implement the Green Book?

FAQ Guide



- Guide to frequently asked questions
- Updated periodically as questions/clarifications developed by Bureau of Quality Assurance

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Establishing an Oversight Body

- First step an agency should perform
- Role:
 - Designate members of an agency's senior management team
 - Agency head designates
 - Oversee management's design, implementation, and operation of internal control
 - Coordinate and/or perform evaluations of agency assessments, respond to Office of the Budget technical review comments or reports
 - Monitor corrective action initiatives

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Establishing an Oversight Body (continued)

- Characteristics members of the oversight body should possess:
 - Know the mission of the agency from beginning to end
 - Have the authority to enact change in the Agency
 - Internal control mindset
 - Financial expertise
 - Relevant systems and technology understanding
 - Legal and regulatory expertise

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Determining Agency Assessable Units

- Ongoing, identifiable purpose
 - Results in the creation of a service or product and/or fulfills a law, regulation, or other mandate
 - Needs to be large enough to allow manager's to evaluate a significant portion of the activity, but not so large that managers cannot perform meaningful evaluation
- Identify support activities
- Report to oversight body and the project lead
 - Project lead named by oversight body
 - Project lead responsible for maintaining a listing of the entity's assessable units



Determining Agency Assessable Units (continued)

- Segment the Agency
- Two Approaches
 - Transaction Cycle Approach
 - Functional transactional cycles must be identified
 - Revenue cycle, disbursement cycle, cash receipt cycle, budget cycle, procurement, etc.
 - Organizational Structure Approach
 - Involves delegating control responsibilities to managers along formal organizational lines
 - Organization chart, physical location, autonomy, etc.
 - Identify support activities as separate assessable units
 - Strategic and long range planning, operational planning, program operations, human resources, etc.



Determining Agency Assessable Units (continued)

- Assessable Unit Materiality
 - Where is the RISK?
 - Not always a dollar amount
 - Can also be a process
 - Eligibility (Unemployment, Human Services, Food Program, Social Security)
 - Public Protection (ChildLine, Background Checks, State Police Ticket Resolution, Elevator and Boiler Inspection)
 - Public Perception (Teacher Certifications, Building Plans - Accessibility, Licensing)
 - Consider use of Treasury over disbursements
 - Treasury provides some controls over check processing
 - Agency should ensure there are adequate controls over requisition



Preparing the Plan

- Use Internal Control Assessment Template (continued)
 - Should be completed for each assessable unit within the agency
 - Template includes the five components and the 17 principles of internal control
 - Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring

Agency _____		Assessable Unit _____		To be completed for all significant deficiencies or material weaknesses		
Control Name	Control Implemented	Action Item/Deficiency/Weakness/Improvement	Weakness Level	Corrective Action Plan	Responsible Party	Target Completion Date



Preparing the Plan (continued)

- Use Internal Control Assessment Template (continued)
 - Use columns to rate if the control is currently being addressed at the assessable unit level within the agency
 - Green = Standard is being met and the controls are effective
 - Yellow = Room for improvement or the standard is not being met BUT steps are being made towards attainment (deficiency or significant deficiency)
 - Red = Standard is not being met and no steps towards attainment (material weakness)

Agency _____		Assessable Unit _____		To be completed for all significant deficiencies or material weaknesses		
Control Name	Control Implemented	Action Item/Deficiency/Weakness/Improvement	Weakness Level	Corrective Action Plan	Responsible Party	Target Completion Date



Preparing the Plan (continued)

- Use Internal Control Assessment Template (continued)
 - Other Information in the Template
 - Controls Implemented
 - Document actions taken and controls implemented to address the corresponding control factor
 - Narrative, reference to a directive, copy of a document, link to a webpage
 - Action Items/Areas Needing Improvement
 - Document areas that do not currently meet the identified control factor

Agency _____		Assessable Unit _____		To be completed for all significant deficiencies or material weaknesses		
Control Name	Control Implemented	Action Item/Deficiency/Weakness/Improvement	Weakness Level	Corrective Action Plan	Responsible Party	Target Completion Date



Preparing the Plan (continued)

- Use Internal Control Assessment Template (continued)
 - Other Information in the Template
 - Weakness Level (deficiency, significant deficiency, material weakness)
 - Corrective Action Plan
 - Responsible Party
 - Identify a responsible party to ensure accountability of outstanding action item(s)
 - Target Completion Date
 - Estimated date for when action item(s) will be completed

Development of Internal and External Monitoring Plans

- Agency heads required to provide an annual monitoring plan for their agency
- Describe how the agency expects to meet its goal and objectives by using policies and procedures to minimize risk
- Use the Internal Control Assessment Template as a guide to developing plan
- Provide flexibility for agencies to develop a plan best suited

Development of Internal and External Monitoring Plans (continued)

- Volume/detail of plan will depend on agency's size and complexity of organizational structure
- The monitoring plan should:
 - Discuss the goals and objectives of the agency
 - State the integrity and ethical values expected of all staff
 - Describe the risks to meeting goals and objectives
 - Explain the structure, policies, and procedures of the agency, as related to controlling risk
 - Specify the methods for monitoring the controls

Continuous Monitoring

- Examine transactions, information, and events to verify accuracy, completeness, appropriateness, and compliance
- Base level of review on materiality, risk, and overall importance of organization's objectives
- Ensure frequency is adequate enough to detect and act timely on questionable activities
- Utilize service organization reports
- Commonwealth's GAAP and/or Single Audit will not relieve any agency from their responsibilities for internal control nor monitoring



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Documentation

- Document and preserve
- Essential items to document
 - Critical decisions and significant events, concerning the use, commitment, or transfer of resources
 - Transactions
 - Ability to trace from inception to completion
 - Policies and procedures
 - Includes the fundamental principles and methods that employees rely on to do their jobs
 - Authorization and Approvals
 - Management should document appropriate approvals for transactions
 - Ensure that transactions are approved and executed only by employees acting within the scope of authority granted



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Corrective Action Plans

- Deficiencies reported to the oversight body
 - Oversight body determines effects of deficiency
- Significant deficiencies and material weaknesses identified
 - Corrective action plan must be developed
- Step by step plan of action
 - Components of a CAP:
 - Description of deficiency (What went wrong?)
 - Steps to correct deficiency (What was done to correct it?) and prevent it from recurring (What should be done to prevent it?)
 - Responsible Party for ensuring correction of deficiency
 - Action plan that details the steps to correct/prevent from recurring, with the date completed



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Commonwealth Oversight

- Office of the Budget, Office of Comptroller Operations, Bureau of Quality Assurance
 - Will monitor the receipt of the:
 - Agencies' assurance statements
 - Assessments of internal controls
 - Monitoring plans
 - Agencies will be notified of incomplete or missing documents within 10 days of receipt of the documents
 - Supporting documentation for the Internal Control Assessment Template should not be sent
 - Agency is responsible for document retention
- See Management Directive 325.12 for additional guidance on Commonwealth Oversight



Introduction to the Green Book

- Green Book
 - Categories of Objectives
 - Components of Internal Controls
 - 17 Principles of Internal Control
 - Referenced in the Assessment Template
 - Levels of Organization Structure



Green Book Components

- A direct relationship exists between the objectives, the components, and the organizational structure of the entity
- The five components apply to staff at all organizational levels and to all categories of objectives



Green Book Components (continued)

• Five components of Internal Controls

- Control Environment

- Influences how objectives are defined and how control activities are structured

- Risk Assessment

- Management assesses the risks facing the entity as it seeks to achieve its objectives



Green Book Components (continued)

• Five components of Internal Controls (continued)

- Control Activities

- Actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal controls system, which includes the entity's information system



Green Book Components (continued)

• Five components of Internal Controls (continued)

- Information & Communications

- Management uses quality information to support the internal control system

- Monitoring

- Essential in helping internal control remain aligned with changing environment



Green Book Components (continued)

- Three Levels of Objectives
 - Operations Objective
 - Effective and Efficient
 - Financial Reporting
 - Internal and external
 - Compliance
 - Adhering to laws and regulations that the Agency must follow

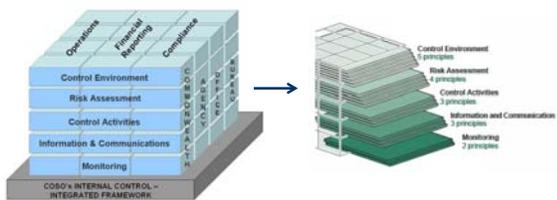


Green Book Components (continued)

- Four Levels of Organizational Structure
 - Commonwealth
 - Agency
 - Office
 - Bureau



Green Book Components



Control Environment

Principle 1 - Demonstrate Commitment to Integrity and Ethical Values

- **Tone at the Top**
 - Management's leadership and commitment towards openness, honesty, integrity and ethical values
 - Set by management
 - Trickle-down effect on all employees
 - Lead by example
 - Managers should be aware of their attitudes towards internal controls
 - Affects all employees



Control Environment (continued)

Principle 1 - Demonstrate Commitment to Integrity and Ethical Values (continued)

- **Standards of Conduct**
 - Established by management
 - Communicate expectations of integrity and ethical values
 - Code of conduct or other verbal or written directive (using policies, operating principles, guidelines, etc.)
 - Governor's Code of Conduct, Management Directives, Administrative Circulars, Personnel Rules, Labor Agreements
- **Adherence to Standards of Conduct**
 - Evaluation of performance to standards



Control Environment (continued)

Principle 1 - Demonstrate Commitment to Integrity and Ethical Values (continued)

- **Internal Control Assessment Template**
 - 1.1 Executive Management has established a "tone at the top" that has been communicated to and is practiced throughout the agency.
 - 1.2 Management enforces a formal code of conduct communicating appropriate ethical and moral behavioral standards.
 - 1.3 Management has an updated internal control plan which has been communicated to applicable personnel.



Control Environment (continued)

Principle 2 - Oversight Responsibility

- Oversight Structure
 - Determined by the entity
 - Responsibilities with applicable laws and regulations, government guidance, and feedback from key stakeholders
 - Required by Management Directive 325.12 to have an oversight body within the Agency



Control Environment (continued)

Principle 2 - Oversight Responsibility (continued)

- Oversight for the Internal Control System
 - Oversight body oversees management's design, implementation, and operation of internal control system
- Input for Remediation of Deficiencies
 - Provides input to management's plans for remediation of deficiencies



Control Environment (continued)

Principle 2 - Oversight Responsibility (continued)

- Internal Control Assessment Template
 - 2.1 Procedures are in place to monitor when controls are overridden and determine if the override was appropriate.
 - 2.2 Management takes appropriate action on exceptions to policies and procedures.



Control Environment (continued)

Principle 3 – Establish Structure, Responsibility, and Authority

- Organizational Structure
 - Set by Human Resources and Agency Head
 - Must be aligned with agency's objectives
 - Up-to-date job descriptions
- Assignment of Responsibility and Delegation of Authority
 - Management assigns and delegates authority
 - Even if responsibility is delegated, ownership of internal control must be retained



Control Environment (continued)

Principle 3 – Establish Structure, Responsibility, and Authority (continued)

- Documentation of Internal Control System
 - Management develops and maintains
 - Assists in management's design of internal control
 - Establishes and communicates the who, what, when, where, and why of internal control execution to personnel
 - Subjective
 - How much is enough?
 - Cost/benefit
 - Quality vs. Quantity



Control Environment (continued)

Principle 3 – Establish Structure, Responsibility, and Authority (continued)

- Internal Control Assessment Template
 - 3.1 Management has an up-to-date organizational chart.
 - 3.2 Management appropriately assigns authority and delegates responsibility to the proper personnel.
 - 3.3 Each employee knows and is aware of the related duties concerning internal control. Authority limits are clearly defined in writing and communicated as appropriate.



Control Environment (continued)

Principle 4 - Demonstrate Commitment to Competence

- Expectations of Competence
 - Established by management
 - Competence is the qualification to carry out assigned responsibilities
 - Requires relevant knowledge, skills, and abilities
- Recruitment, Development, and Retention of Employees
 - Recruit
 - Performed by Human Resources



Control Environment (continued)

Principle 4 - Demonstrate Commitment to Competence (continued)

- Recruitment, Development, and Retention of Employees (continued)
 - Train
 - Develops competencies, reinforce standards of conduct, and tailor training based on the needs of the role
 - Mentor
 - Provide guidance on individual's performances
 - Interim reviews of staff performance
 - Retain
 - Motivate and reinforce expected levels of performance



Control Environment (continued)

Principle 4 - Demonstrate Commitment to Competence (continued)

- Succession and Contingency Plans and Preparation
 - Succession plans
 - Address the entity's need to replace key personnel over the long-term
 - Contingency plans
 - Address issues to help the entity continue its operations due to sudden changes



Control Environment (continued)

Principle 4 - Demonstrate Commitment to Competence (continued)

- Internal Control Assessment Template
 - 4.1 Management performs required personnel actions, including the hiring of most qualified individuals.
 - 4.2 Management has identified and defined the tasks required to accomplish particular jobs and fill various positions.
 - 4.3 Employees receive/obtain information and training about internal controls.
 - 4.4 Management utilizes methods to help mitigate the risk associated with sudden or significant changes in key personnel.



Control Environment (continued)

Principle 5 - Enforce Accountability

- Enforce Accountability
 - Driven by the tone at the top (Principle 1)
 - Use of Service Organizations (third parties)
 - Management must hold service organizations accountable
 - Use of another Commonwealth Agency
 - Document roles/responsibilities with Memorandum of Understanding (MOU)
- Considerations of Excessive Pressures
 - Management is responsible for evaluating pressures placed upon personnel



Control Environment (continued)

Principle 5 - Enforce Accountability (continued)

- Internal Control Assessment Template
 - 5.1 Management ensures accountability with internal controls, laws, and regulations.
 - 5.2 Job performance is periodically evaluated and reviewed with each employee.
 - 5.3 Excessive pressure on employees is evaluated to ensure they are able to fulfill their assigned responsibilities.



Risk Assessment (continued)

Principle 6 - Define Objectives and Risk Tolerances (continued)

- Definition of Objectives
 - Objectives are actions required to achieve the long-term goal
 - A good objective is **SMART**
 - Specific - What is the single result to be accomplished?
 - Measureable - How can it be measured?
 - Attainable - Is it realistic given the resources currently available?
 - Relevant - Does it make a difference if the objective is accomplished?
 - Timely - Is the timeline realistic?



Risk Assessment (continued)

Principle 6 - Define Objectives and Risk Tolerances(continued)

- Internal Control Assessment Template
 - 6.1 Organizational goals and objectives are clearly communicated through a formal mission statement.
 - 6.2 Success factors that are critical to achievement of agency objectives are identified by the assessable unit.
 - 6.3 The agency establishes a control structure to address risks.
 - 6.4 Long and short-range plans are developed and written.
 - 6.5 The assessable unit has activity-level objectives that are critical to the success of the overall agency-wide objectives.



Risk Assessment (continued)

Principle 6 - Define Objectives and Risk Tolerances(continued)

- Internal Control Assessment Template (continued)
 - 6.6 Employees at all levels of the assessable unit are aware of and understand the objectives.
 - 6.7 Activity-level objectives are relevant to all significant agency processes, include measureable criteria, and are adequately resourced.
 - 6.8 The assessable unit's strategic operating plans support its goals/long-term objectives.
 - 6.9 The activity level objectives are consistent.



Risk Assessment (continued)

Principle 7 – Identify, Analyze and Respond to Risks

- Identification of Risks
 - Inherent Risk
 - Risk to an entity in the absence of management’s response to the risk
 - Greater potential for loss from fraud, waste, unauthorized use, or misappropriation due to the nature of the activity or asset
 - Cash has a high inherent risk



Risk Assessment (continued)

Principle 7 – Identify, Analyze and Respond to Risks (continued)

- Identification of Risks (continued)
 - Residual Risk
 - Risk that remains after management’s response to inherent risk
 - Management’s lack of response to either risk will cause deficiencies in the internal control system
 - Risk identification methods include:
 - Qualitative and quantitative ranking activities
 - Forecasting and strategic planning
 - Consideration of deficiencies identified through audits and/or other assessments, including monitoring



Risk Assessment (continued)

Principle 7 – Identify, Analyze and Respond to Risks (continued)

- Identification of Risks
 - Internal Factors
 - Entity’s programs
 - Organizational structure
 - Use of new technology
 - External Factors
 - New or amended laws, regulations, or professional standards
 - Economic instability
 - Natural disasters



Risk Assessment (continued)

Principle 7 – Identify, Analyze and Respond to Risks (continued)

- Analysis of Risks
 - Estimate significance of risk, which provides a basis for responding to the risks
 - Significance
 - Magnitude of impact
 - Likelihood of occurrence
 - Nature of risk



Risk Assessment (continued)

Principle 7 – Identify, Analyze and Respond to Risks (continued)

- Responses to Risks
 - Management designs responses to analyzed risks to meet the tolerance level set forth in the objective
 - Acceptance
 - Accept the risk and monitor it
 - Weather cannot be controlled, but we prepare to respond to some of its effects (power outages, floods, snow storms, etc.)
 - Continuity of Operations Plans (COOP)
 - Avoidance
 - Avoid the risk by eliminating it
 - Closing a program



Risk Assessment (continued)

Principle 7 – Identify, Analyze and Respond to Risks (continued)

- Responses to Risks (continued)
 - Reduction (Risk Reduced)
 - Controls have been instituted
 - Most risk will fall in this area
 - Severity of risk determines response
 - Sharing
 - Share the risk by partnering with another entity
 - An agreement with another agency to utilize its resources in an area outside of the host agency's expertise
 - Outsource HR to another agency - Memorandum of Understanding (MOU)



Risk Assessment (continued)

Principle 7 – Identify, Analyze, and Respond to Risks (continued)

- Internal Control Assessment Template
 - 7.1 A process exists to identify and consider the implications of internal risk factors. This process is updated at least annually.
 - 7.2 A process exists to identify and consider the implications of external risk factors. This process is updated at least annually.
 - 7.3 Management has developed an approach for risk management.
 - 7.4 Senior management develops plans to mitigate significant identified risks.



Risk Assessment (continued)

Principle 7 – Identify, Analyze, and Respond to Risks (continued)

- Internal Control Assessment Template (continued)
 - 7.5 Management periodically evaluates the appropriateness of policies and procedures.
 - 7.6 Risk assessments are conducted on a regular basis.
 - 7.7 Management periodically evaluates the accuracy, timeliness, and relevance of its information and communication systems.
 - 7.8 Management has an appropriate attitude toward risk.



Risk Assessment (continued)

Principle 8 – Assess Fraud Risk

- Types of Fraud
 - Fraudulent Financial Reporting
 - Intentional misstatements or omissions of amounts or disclosures
 - Deceive financial statement users
 - Misappropriation of Assets
 - Theft of entity's assets
 - Purchasing card fraud
 - Corruption
 - Bribery and other illegal acts



Risk Assessment (continued)

Principle 8 – Assess Fraud Risk

- Other Misconduct
 - Management should consider other misconduct that can occur
 - Waste
 - Using or expending resources carelessly, extravagantly, or for no purpose
 - Abuse
 - Behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary



Risk Assessment (continued)

Principle 8 – Assess Fraud Risk (continued)



- Fraud Risk Factors
 - Incentive/Pressure
 - Meet deadlines or performance targets
 - Opportunity
 - Absence of controls, ineffective controls, management override of controls
 - Attitude/Rationalism
 - Individuals able to rationalize committing fraud



Risk Assessment (continued)

Principle 8 – Assess Fraud Risk (continued)

- Response to Fraud Risks
 - Management designs an overall risk response and specific actions for responding to fraud risks
 - Possible to reduce and/or eliminate certain fraud risks by making changes to the entity's activities and processes
 - Report suspected fraud to law enforcement or Office of Inspector General



Risk Assessment (continued)

Principle 8 – Assess Fraud Risk (continued)

- Internal Control Assessment Template
 - 8.1 Specific antifraud policies and training have been developed and training provided to all employees.
 - 8.2 Management performs fraud risk assessments on a regular basis.
 - 8.3 Management has a fraud response plan in place and knows how to respond timely if a fraud allegation is made.



Risk Assessment (continued)

Principle 9 – Identify, Analyze, and Respond to Change

- Identification of Change
 - Performed by management
 - Forward-looking approach
 - Internal Changes
 - Entity's Programs or Activities
 - Oversight Structure
 - Personnel
 - Technology



Risk Assessment (continued)

Principle 9 – Identify, Analyze, and Respond to Change

- Identification of Change (continued)
 - External Changes
 - Governmental
 - Budget Impasse
 - Economic
 - Technological
 - Legal
 - Regulatory
 - Physical Environments



Risk Assessment (continued)

Principle 9 – Identify, Analyze, and Respond to Change (continued)

- Analysis and Response to Change
 - Management analyzes and responds to identified changes and related risks in order to maintain an effective internal control system
 - Changes in conditions affecting the entity and its environment often require changes to the internal control system
 - Management performs a risk assessment to identify, analyze, and respond to changes.



Risk Assessment (continued)

Principle 9 – Identify, Analyze, and Respond to Change (continued)

- Internal Control Assessment Template
 - 9.1 Management has an appropriate attitude toward risk taking.
 - 9.2 Mechanisms exist to identify, prioritize, and react to routine events, economic change, regulatory changes, and technological changes.
 - 9.3 Management promotes continuous improvement and solicits input and feedback.



Control Activities

Principle 10 – Design Control Activities

- Response to Objectives and Risks
 - Control activities designed to respond to the entity's objectives and risks to achieve an effective internal control system
 - Includes:
 - Policies
 - Procedures
 - Techniques
 - Mechanisms
 - Enforce management's directives to achieve the entity's objectives and address related risks



Control Activities (continued)

Principle 10 - Design Control Activities (continued)

- Design of Appropriate Types of Control Activities
 - Examples of Common Control Activities
 - Physical controls over vulnerable assets (cash, equipment, inventory, etc.)
 - Proper execution of transactions
 - Accurate and timely recording of transactions
 - Preventative Controls
 - Prevent an entity from failing to achieve an objective
 - Authorization Lists
 - Segregation of Duties
 - Prior Supervisory Approval



Control Activities (continued)

Principle 10 - Design Control Activities (continued)

- Design of Appropriate Types of Control Activities (continued)
 - Detective Controls
 - Discovers when an entity is not achieving an objective and corrects the action
 - Occurs after the fact
 - Reconciliation
 - Exception Reports
 - Supervisory Review
 - Automated or Manual



Control Activities (continued)

Principle 10 - Design Control Activities (continued)

- Design of Control Activities at Various Levels
 - Management designs control activities for appropriate coverage of objectives and risks in the operations
 - Entity-Level Control Activities
 - Pervasive effect on entity's internal control system
 - Can be related to multiple components
 - Transaction Control Activities
 - Actions built directly into operational processes
 - Tend to be related to financial processes



Control Activities (continued)

Principle 10 - Design Control Activities (continued)

- Segregation of Duties
 - Divide responsibilities between different employees
 - Separate the responsibilities for:
 - Authorizing transactions
 - Processing and recording transactions
 - Reviewing transactions
 - Handling any related assets or process, so that no one individual controls all key aspects of a transaction or event
 - Helps prevent fraud, waste, and abuse



Control Activities (continued)

Principle 10 - Design Control Activities (continued)

- Internal Control Assessment Template
 - 10.1 Physical safeguarding policies and procedures have been developed, implemented, and communicated to all employees.
 - 10.2 Policies and procedures address the handling of confidential or sensitive information.
 - 10.3 The agency has established and monitors performance measures and indicators.
 - 10.4 Key duties and responsibilities are divided or segregated among different people to reduce the risk of error, waste, or fraud.



Control Activities (continued)

Principle 10 - Design Control Activities (continued)

- Internal Control Assessment Template (continued)
 - 10.5 Management requires transactions exceeding a specified dollar threshold additional approval.
 - 10.6 Accounting statements and key reconciliations are completed and reviewed timely.
 - 10.7 Employees understand which records they are responsible to maintain and the required retention period.
 - 10.8 Management has a written policies defining defines the procedures for monitoring sub-recipients.



Control Activities (continued)

Principle 10 - Design Control Activities (continued)

- Internal Control Assessment Template (continued)
 - Vendor Management**
 - 10.9 Management inventories existing outsourced vendor relationships.
 - 10.10 Key risks related to outsourced vendors are assessed.
 - 10.11 Management assesses whether SOC reports should be required for a third-party service provider.
 - 10.12 Management obtains and reviews SOC reports.



Control Activities (continued)

Principle 11 - Design Activities for the Information System

- Design of the Entity's Information System
 - Respond to identified objectives and risks
 - People, processes, data, and technology that management organizes to obtain, communicate, or dispose of information
- Design of Appropriate Types of Control Activities
 - General Control Activities
 - Apply to all or a large segment of an entity's information systems



Control Activities (continued)

Principle 11 - Design Activities for the Information System (continued)

- Design of Appropriate Types of Control Activities
 - Application Control Activities
 - Controls incorporated directly into computer applications to achieve validity, completeness, accuracy, and confidentiality of transactions
 - Controls over:
 - Input, Processing, Output
- Design of Information Technology Infrastructure
 - Completeness, Accuracy, Validity of IT System



Control Activities (continued)

Principle 11 - Design Activities for the Information System (continued)

- Design of Security Management
 - Objectives for Security Management
 - Confidentiality, Integrity, Availability
 - Consider internal and external threats
- Design of Information Technology Acquisition, Development, and Maintenance
 - Management designs control activities over the:
 - Acquisition, Development, Maintenance



Control Activities (continued)

Principle 11 - Design Activities for the Information System (continued)

- Design of Information Technology Acquisition, Development, and Maintenance (continued)
 - Control activities can include:
 - Requiring authorization of change requests
 - Reviewing the changes, approvals, and testing results
 - Designing protocols to determine whether changes are made properly



Control Activities (continued)

Principle 11 - Design Activities for the Information System (continued)

- Internal Control Assessment Template
 - Access to Programs and Data
 - Program Changes
 - Program Development
 - Computer Operations
 - Data Integrity
 - End-User Computing



Control Activities (continued)

Principle 12 – Implement Control Activities

- Documentation of Responsibilities through Policies
 - Management documents policies for each unit, including:
 - Responsibility for operational process's objectives and related risks
 - Control activity design
 - Implementation
 - Operating effectiveness
 - Procedural manuals for critical business processes



Control Activities (continued)

Principle 12 – Implement Control Activities (continued)

- Periodic Review of Control Activities
 - Management should periodically review policies, procedures, and related control activities for continued relevance and effectiveness
 - If there is a significant change, management should review the process timely after the change to confirm that the control activities are designed and implemented appropriately
 - Changes may occur in personnel, operational processes, or information technology system



Control Activities (continued)

Principle 12 – Implement Control Activities (continued)

- Internal Control Assessment Template
 - 12.1 Control activities are regularly evaluated to ensure that they are still appropriate and working as intended.
 - 12.2 Reviews are made of actual performance compared to objectives, budgets, performance in prior periods for all major initiatives. Management analyzes and follows up as needed.
 - 12.3 Management's communications and actions are consistent with policies.



Information and Communications

Principle 13 – Use Quality Information

- Identification of Information Requirements
 - Identify requirements needed to achieve the objectives and address the risks
 - Ongoing process that occurs throughout an effective internal control system
 - Consider both internal and external users
- Relevant Data from Reliable Sources
 - Data obtained from internal and external sources based on the identified information requirements
 - Relevant and reliable



Information and Communications (continued)

Principle 13 – Use Quality Information (continued)

- Data Processed into Quality Information
 - Processing data into information that supports the internal control system
 - Meets requirements when relevant data from reliable sources are used
 - Quality information is appropriate, current, complete, accurate, accessible, and timely



Information and Communications (continued)

Principle 13 – Use Quality Information (continued)

- Internal Control Assessment Template
 - 13.1 Pertinent information regarding legislation, regulatory developments, economic changes or other factors from internal and external sources is identified, captured, and distributed.
 - 13.2 Management administers, develops, and revises its information systems in an effort to continually improve the usefulness, reliability, and timeliness of its communication of information.



Information and Communications (continued)

Principle 14 – Communicate Internally

- Communication throughout the Entity
 - Communication is multi-dimensional
 - Down, across, up, and around all levels
 - Communication systems can be formal or informal
- Appropriate Methods of Communication
 - Consider the
 - Audience
 - Nature of Information
 - Availability Cost
 - Legal or Regulatory Requirements



Information and Communications (continued)

Principle 14 – Communicate Internally (continued)

- Internal Control Assessment Template
 - 14.1 Management institutes written policies and procedures for all major program areas.
 - 14.2 Policies and procedures are formally shared with employees.
 - 14.3 Management ensures that effective internal communications occur.
 - 14.4 Management promotes and fosters trust by establishing open channels of communication.
 - 14.5 An effective whistleblower protection program and fraud hotline is in place.



Information and Communications (continued)

Principle 15 – Communication Externally

- Communication with External Parties
 - Variety of forms
- Communication with External Parties
 - Examples: Suppliers, contractors, service organizations, regulators, external auditors, general public, etc.
- Appropriate Methods of Communication
 - Similar to internal communication



Information and Communications (continued)

Principle 15 - Communication Externally (continued)

- Internal Control Assessment Template
 - 15.1 Management ensures that effective external communication occurs.
 - 15.2 An effective whistleblower protection program and fraud hotline is in place.
 - 15.3 Appropriate management reviews occur prior to report submission to parties outside the agency.
 - 15.4 Management provides oversight on securing audit reports of its service organizations.



Monitoring

Principle 16 - Perform Monitoring Activities

- Establishment of a Baseline
 - Current state of the internal control system
 - Represents the difference between the criteria of the design of the internal control system and condition of the internal control system at a specific point in time
- Internal Control System Monitoring
 - Performed continually and responsive to change
 - Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions



Monitoring (continued)

Principle 16 - Perform Monitoring Activities (continued)

- Internal Control System Monitoring (continued)
 - Monitoring performed by managers, supervisors, and staff will not have the same focus
 - Senior Management
 - Broad focus, with an emphasis on the agency's internal environment, mission, and goals
 - Managers
 - Mindful of new risks that may impact processes
 - Assess how well internal controls function in multiple units within the organization



Monitoring (continued)

Principle 16 – Perform Monitoring Activities (continued)

- **Internal Control System Monitoring (continued)**
 - Supervisors
 - Monitor all activities within their respective units to ensure staff are performing their assigned responsibilities, internal control activities are functioning properly, and the unit is accomplishing its goals and objectives
 - Staff
 - Monitor their own work to ensure it is being done properly
 - Should be trained by supervisors and management regarding internal control and be encouraged to report any irregularities



Monitoring (continued)

Principle 16 – Perform Monitoring Activities (continued)

- **Evaluation of Results**
 - Results of the ongoing monitoring and separate evaluations should be documented and reviewed
 - Helps to identify issues that could compromise the effectiveness of the internal control plan
 - Identify changes in the internal control system that either have occurred or are needed because of changes in the entity and its environment



Monitoring (continued)

Principle 16 – Perform Monitoring Activities (continued)

- **Internal Control Assessment Template**
 - 16.1 Senior management monitors performance against objectives, budget, and industry standards on an ongoing basis.
 - 16.2 Performance reviews, both scheduled and random, are made of specific functions or activities, focusing on compliance, financial or operational issues.
 - 16.3 Data recorded by information and financial systems are periodically compared with physical assets.
 - 16.4 Periodic site visits are performed at decentralized locations and checks are performed.



Monitoring (continued)

Principle 17 – Evaluate Issues and Remediate Deficiencies

- Reporting Issues
 - Personnel report internal control issues
 - Through established reporting lines to the appropriate internal parties on a timely basis
 - Certain issues should be reported to the oversight body if the issue spans across the:
 - Organizational structure
 - Extends outside the entity to service organizations, contractors or suppliers
 - Management has an interest (e.g. fraud or other illegal acts)
 - May be required to report issues to external parties



Monitoring (continued)

Principle 17 – Evaluate Issues and Remediate Deficiencies (continued)

- Evaluation of Issues
 - Management evaluates and documents internal control issues
 - Determines appropriate corrective action
- Corrective Actions
 - Resolve internal control deficiencies on a timely basis
 - Include the resolution of audit findings



Monitoring (continued)

Principle 17 – Evaluate Issues and Remediate Deficiencies (continued)

- Internal Control Assessment Template
 - 17.1 The methodology for evaluating the agency's internal control is logical and appropriate.
 - 17.2 Management undergoes a systematic review and evaluation of each business process.
 - 17.3 Mechanisms are in place for employees to report deficiencies in internal control on a timely basis.
 - 17.4 Management is responsive to findings and recommendations of audits and other reviews.
 - 17.5 The agency makes appropriate follow-up inquiries with regard to findings and recommendations of audits and other reviews.



Next Steps

Task	Target Date Completed By
1. Establish Agency Oversight Body	November 30, 2015
2. Determine Assessable Units within your Agency	December 31, 2015
3. Assign Management Representative to Each Assessable Unit	January 15, 2016
4. Conduct Preliminary Assessment of Units	March 31, 2016
5. Identify and Prioritize Control Gaps; Rate Risk and Resolution Levels; Remediate High Risk/Low Resolution Immediately; Continue Process.	June 30, 2016



Next Steps (continued)

Prioritizing Control Gap Resolution

- Included in the Internal Control Monitoring Guide

Observations & Recommendations Summary	Relative Risk	Resolution Difficulty
1. Observation #1 Recommendations/Corrective Actions for Observation #1	High	Moderate
2. Observation #2 Recommendations/Corrective Actions for Observation #2	High	High
3. Observation #3 Recommendations/Corrective Actions for Observation #3	High	Low



Questions?

FAQ Guide

Resource Website:
<http://www.budget.pa.gov/Services/ForAgencies/Auditing/Pages/InternalcontrolAnalysis.aspx#f.ViaNCjIOrQ>

Resource Email Account:
 RA-OBOCOINTCONEVAL@pa.gov



