



# Internal Controls and Segregation of Duties

KATHERINE HECK,  
GOVERNMENT FINANCE ADVISOR



## NHMA Launches *FREE* Financial Policies Certificate Program

<https://www.nhmunicipal.org/event/save-date-internal-controls-segregation-duties%C2%A0fraud-and-risk>

*This series is of interest to Town Managers, Town Administrators, Finance Officers, Treasurers, Town Clerks, Tax Collectors, Committee Chairs and Department Heads.*

Internal Controls, Segregation of Duties, Fraud and Risk	Wednesday, September 13, 2023	9am-3:30pm
Policies for Operations and Budgeting	Wednesday, September 20, 2023	9am-11:30 am
Fund Balance Policy	Wednesday, September 20, 2023	1:00pm-3:30 pm
Revenue Policies	Wednesday, September 27, 2023	9am-11:30am
Expenditure Policies	Wednesday, September 27, 2023	1:00pm-3:30pm
Investment Policy	Wednesday, October 18, 2023	9am-11:30am
Debt Policy	Wednesday, October 18, 2023	1:00pm-3:30pm
Capital Planning and Fiscal Capacity	Wednesday, October 25, 2023	9am-3:30pm



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**The Basics of Financial Policy**

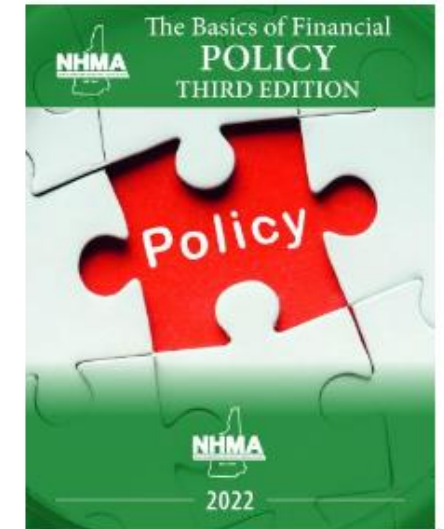
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<https://www.nhmunicipal.org/product/basics-financial-policy>

# AGENDA

What is the Purpose Internal Controls?

How are Internal Controls Developed?

What does it mean to “segregate duties”?

Learn why....

- This is a process: a means to an end, not the end itself.
- Accomplished by people, not merely policy, procedures and forms.
- Reasonable, but not absolute, assurance that assets and resources are safeguarded.

# Internal Control Defined:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of the five private sector organizations listed on the left and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

Internal control, as defined by COSO in its Internal Control—Integrated Framework is “a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.”

Effective internal control is an integral part of an organization’s governance system and ability to manage risk.

# What are Internal Controls?



Anything that helps safeguard assets.



Anything that helps make more effective and efficient use of those assets.

## NH RSA 41:9

- Requires the governing body to be responsible for establishing and maintaining internal control policies and procedures to ensure the safeguarding of all town assets and properties.

## Objectives

- Operations – effectiveness and efficiency of operations
- Reporting – Reliability of reporting for internal and external use
- Compliance – Compliance with applicable laws and regulations

## Policy Considerations

- Protect assets from waste and abuse.
- Promote operational effectiveness and efficiency.
- Ensure accurate, reliable records.
- Encourage adherence to policies, rules, regulations and laws.

# What are Internal Controls?

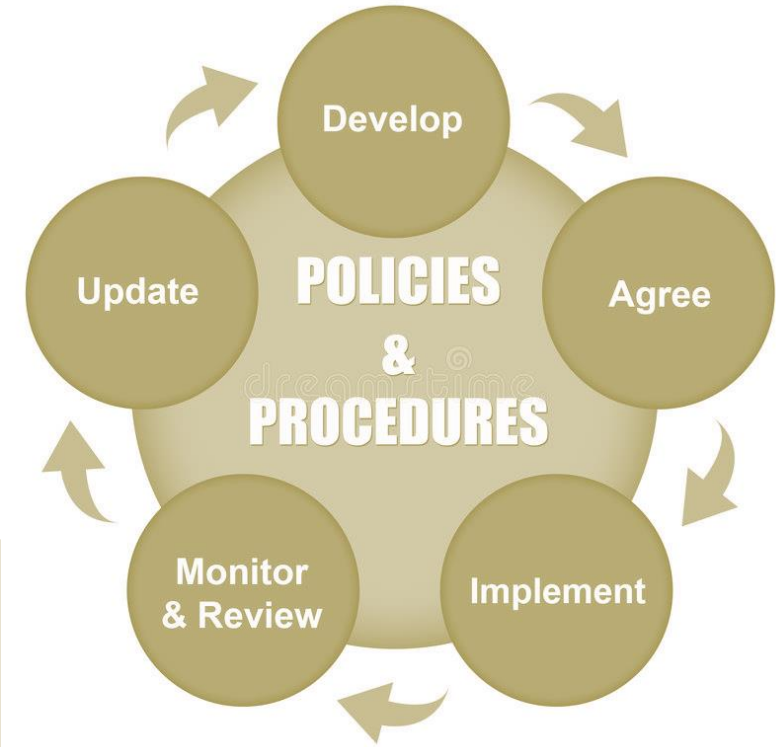


Internal control is a process.

Dynamic – ongoing and active  
Iterative



Each process is defined and implemented by a set of policies and procedures- a series of ongoing actions and activities that occur throughout the organization.



# Internal Controls Are Meant To:



2. Promote operational effectiveness and efficiency.



2. Protect assets from waste and abuse.



3. Ensure accurate, reliable records.



4. Encourage adherence to policies, rules, regulations and laws.



# What Are Inter

A process: a means to an end, not the end itself.

Accomplished by people, not merely policy, procedures and forms.

Reasonable, but not absolute, assurance that assets and resources are safeguarded.





# Importance of Internal Controls

Ensure	Ensure objectives are accomplished.
Reduce	Reduce fraud opportunities.
Prevent	Prevent loss of funds or other resources.
Establish	Establish standards of performance.
Assure	Assure compliance with laws, regulations, policies and procedures.
Preserve	Preserve integrity.
Eliminate	Eliminate adverse publicity.
Assure	Assure public confidence.

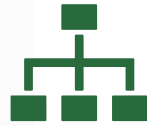
# The Framework of Internal Controls



The Control Environment.



Risk Assessment.



Implementing Control Activities.



Information and Communication.



Monitoring.



# INTERNAL CONTROL OBJECTIVES

- **Operations**
  - Analyze operational and performance goals along with the effectiveness and efficiencies of operation, including the safeguarding of assets
- **Reporting**
  - Considers both financial and non-financial information, internal and external to the unit, with an expectation of reliability, accountability and transparency
- **Compliance**
  - Assure adherence to laws and regulations

# Minimum Level of Internal Control Standards

## FIVE COMPONENTS

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

## KEY AREAS

- Accounting
- Auditing
- Budget
- Cash
- Revenue
- Fund Balance
- Purchasing/Bidding
- Expenditures
- Assets ( Capital & Fixed)
- Investments
- Debt
- Documentation
- Record Retention
- Purchasing
- Risk Management

# The Control Environment

SET THE TONE AT THE TOP –  
INTERNAL CONTROLS ARE  
IMPORTANT!

INTEGRITY AND ETHICAL VALUES - MUST  
BE CLEARLY COMMUNICATED IN WRITING  
AND BY EXAMPLE.

COMMITMENT TO COMPETENCE –SOUND  
PERSONNEL POLICIES INCLUDING JOB  
DESCRIPTIONS, HIRING POLICIES,  
BACKGROUND CHECKS, JOB  
QUALIFICATIONS, PERFORMANCE  
EVALUATIONS.

AUTHORITY AND RESPONSIBILITY – CLEAR  
LINES OF AUTHORITY. IF EVERYONE IS  
RESPONSIBLE, THEN NO ONE IS RESPONSIBLE.  
PROVIDE ALL OF THE AUTHORITY NECESSARY  
AND ONLY THE AUTHORITY NECESSARY.

# Control Activities



**DIRECTIVE CONTROLS** PROVIDE GUIDANCE TO EMPLOYEES TO HELP ACHIEVE THE DESIRED OBJECTIVES IN THE DEPARTMENT



**PREVENTIVE CONTROLS** ARE DESIGNED TO DETER THE OCCURRENCE OF AN UNDESIRABLE EVENT. THE DEVELOPMENT OF THESE CONTROLS INVOLVES PREDICTING POTENTIAL PROBLEMS BEFORE THEY OCCUR AND IMPLEMENTING PROCEDURES TO AVOID THEM.



**DETECTIVE CONTROLS** ARE DESIGNED TO IDENTIFY UNDESIRABLE EVENTS THAT DO OCCUR AND ALERT MANAGEMENT ABOUT WHAT HAS HAPPENED. THIS ENABLES MANAGEMENT TO TAKE CORRECTIVE ACTION PROMPTLY.



**CORRECTIVE CONTROLS** IDENTIFY FLAWS IN THE PROCESS AND DETERMINE ACTIONS TO BE TAKEN (EMPLOYEE TRAINING)

# Types of Internal Controls:

Preventive – Designed to stop an unwanted outcome before it happens.

Reading/understanding policies

Review/approve purchase orders

Passwords to stop unauthorized access

Detective – Designed to find and correct errors that have already occurred.

Cash counts/reconciliation

Expenditures vs. budget

Reviewing payroll reports

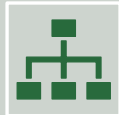
# What is Risk?



When working toward its objectives, every organization faces a wide range of uncertain internal and external factors = Risks.



The effect of this uncertainty on the organization's objectives is called risk, which can be either positive, representing opportunity, or negative, representing a threat.



Risk should always be assessed in light of setting and achieving your organization's objectives. If there are no objectives, there is no risk.



This risk assessment process is both active and frequent.



# What is the Objective Risk Management?

Identification & analysis of relevant risks to achievement of objectives, forming a basis for determining how the risks should be managed.

Reliable Financial Reporting

Timeframes should be set for each report (daily/monthly/annually)

Procedures established to ensure accuracy

Efficient Operations

Eliminate redundant operations

Utilize technology when available to reduce time (cost)

Legal Compliance

Identify applicable laws and confirm compliance

# Identify and Analyze Risks

- Identify risks at all levels of the entity
  - Ongoing and iterative process conducted to enhance ability to achieve objectives
  - What is the severity and likelihood of loss?
- Analyze internal and external factors
  - What is the frequency of risk assessment?
  - Takes into account operational priorities and cost
- Involve appropriate levels of Management
  - Responsibility and accountability for risk identification and analysis is the responsibility of management.
- Estimate the significance of each risk
  - What is the likelihood (probability)
  - Frequency
  - Duration of impact after the occurrence
- Determine how to respond to the risk
  - Once potential significant risks is assessed, management determines how to manage the risk

# Risk Assessment

Changes effecting risk

Inherent Risk

- Unfamiliarity
- Complexity

Fraud Risk

- Opportunity

		Risk Assessment Matrix			
		Severity			
		Catastrophic - 4	Critical - 3	Marginal - 2	Negligible - 1
Probability	Frequent - 4	High (16)	High (12)	Serious (8)	Medium (4)
	Probable - 3	High (12)	Serious (9)	Serious (6)	Medium (3)
	Remote - 2	Serious (8)	Serious (6)	Medium (4)	Low (2)
	Improbable - 1	Medium (4)	Medium (3)	Low (2)	Low (1)

# Risk Assessment – Consider Changes Effecting Risk:

Changes in operations - economic, political.

Changes in personnel.

Changes in IT systems.

Rapid growth.

Change in structure, staff reductions.

Change in programs, activities, services or vendors.

# Risk Assessment – Consider Inherent Risk

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Cash – the more easily an asset can be converted to personal use, the more likely it is to be stolen.

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Complexity – the more that can go wrong, the more that is likely to go wrong.

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Decentralization.

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Unfamiliarity-An unresponsiveness to previously identified internal control weaknesses sends a negative message about management’s attitude!

# Risk Assessment – Consider Fraud Risks

## Embezzlement/Conversion

- Cash, securities, broker/dealers, investment managers

## Mechanical errors

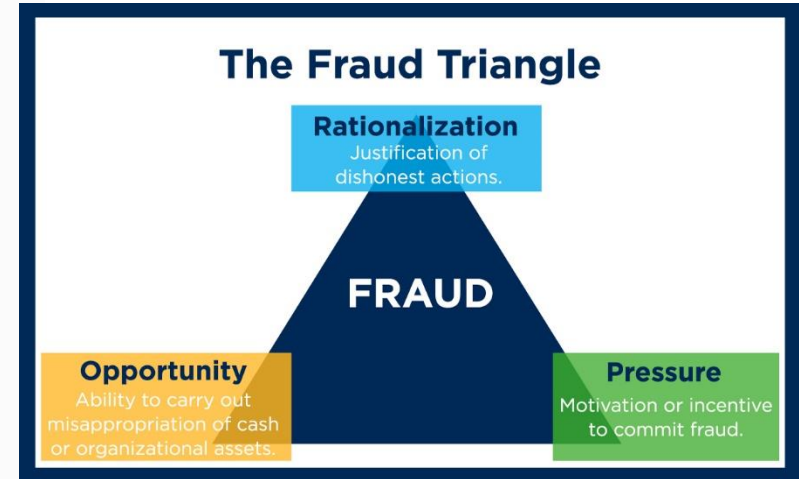
- Incorrect amounts
- Improper amortization of premiums and discounts
- Incorrect payees
- Wire transfer failures

## Judgement Errors

- Inappropriate securities selection Poor market timing (?)
- Selection of an insolvent dealer or depository

## Cover Up

- Fraud
- Delaying or avoiding recognition of losses



Financial Stress – personal, business, illness.

Addictions – gambling, drugs, alcohol.

Disaffection - an employee believes they are being, or have been, mistreated.

Past Problems.

# Red Flags



- **Cash Receipts and Disbursements**
- **Records and Reports**
- **Purchasing**
- **Fixed Assets**

## Employee Red Flags

- Employee lifestyle or behavioral change Significant personal debt and credit problems Refusal to take vacation or sick leave
- Lack of segregation of duties in vulnerable areas.

## Management Red Flags

- Reluctance to provide information to auditors
- Management decisions are dominated by an individual or small group Weak internal control environment
- Excessive number of checking accounts or frequent changes in banking accounts Excessive number of year-end transactions
- High employee turnover rate
- Service contracts result in no products

# Sample Risk Assessment

<b>Change Risk</b>	<b>Inherent Risk</b>	<b>Fraud Risk</b>



# Sample Risk Assessment: EXAMPLE

## Transfer Station Operation

<b>Change Risk</b>	<b>Inherent Risk</b>	<b>Fraud Risk</b>
⇓	⇓	⇓
Rapid Growth	Cash	Financial Stress
Staff Turnover	Decentralized	Past Personnel Issues

# Sample Risk Assessment EXAMPLE: Fuel Charges

<b>Change Risk</b>	<b>Inherent Risk</b>	<b>Fraud Risk</b>
New Vendor	Decentralized	Price of Fuel

# Questions To Ask Regarding Risk Assessment



Where is the potential risk?



What is the likelihood of an unwanted occurrence and what would be the impact?



What compensating controls can be implemented?



Does the cost of the controls exceed their benefit?

# Information and Communication

TO BE USEFUL, INFORMATION MUST BE:

- ✓ Appropriate
- ✓ Accurate
- ✓ Timely
- ✓ Current
- ✓ Accessible

# Information and Communication

Up, down, lateral  
and around.

Accounting policies  
and procedures  
manual:

Clearly outlines  
specific authority  
and responsibility

Serves as a  
reference tool

Lessens the threat  
to continuity due to  
employee turnover

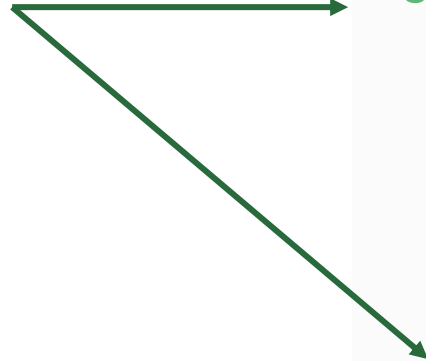
# Monitoring

Periodic



- Separate evaluation of internal controls:

- Independent Auditor – material weakness, reportable condition, non-compliance, significant deficiency



- Insurance Carrier (Property/Liability) - internal control assessment

Ongoing



- Management and Leadership analysis.

# Monitoring



Investigate and resolve discrepancies.



Maintain professional skepticism – explanations should be supported by some type of evidence.



Promptly follow-up on all indications of potential errors and irregularities.

# Accountability

Organization holds individuals accountable for their internal control responsibilities

- Enforces Accountability through structures, authorities and responsibilities
- Establishes Performance Measures, Incentives and Rewards
- Evaluates Performance Measures, Incentives and Rewards
  - Align incentives and rewards with fulfillment of internal control responsibilities
  - Clear objectives, defined implications, meaningful metrics
- Consider Excessive Pressures – evaluate the pressures associated with achieving objectives
  - Do not set unrealistic performance targets
- Evaluate performance of internal control responsibilities
  - Adherence to standards of conduct
  - Expected levels of competence

Accountability is interconnected with leadership and is the result of the tone established by the governing body and senior management.



# Who Is Responsible?

EVERYONE plays some role in effecting internal controls.

All personnel should be responsible to communicate:

- Problems in operations
- Deviations from established standards or expectations
- Violations of policy, law or regulations

- Governing Body – BOS, Council, School Board, Commissioners, Aldermen
- Manager, Superintendent
- Department Heads, Principals
- Supervisory Personnel
- Each Individual Employee
- Budget Committee

# Where to Start: Internal Control Self-Assessment



A basic checklist from the checklist published by the Vermont State Auditors Office:

2022 VT checklist:  
<https://diovermont.org/wp-content/uploads/2022/02/Internal-Control-Checklist-Fillable-.pdf>



Answers on the right indicate a potential internal control weakness that may need attention.

# Internal Controls Checklist

## GENERAL

## Comments:

1. Is governing body aware that establishing and maintaining appropriate internal controls is their responsibility under RSA 41:9, VI?	Y N	
2. Does municipality management show commitment to establishing and maintaining controls?	Y N	
3. Do municipality offices have an organizational chart defining the activities and person responsible for them?	Y N	
4. Are the duties of officials and employees clearly defined in the personnel policy and written job descriptions?	Y N	
5. Are employee evaluations routinely conducted with corrective action addressed if needed?	Y N	
6. Does municipality management consistently exhibit high ethical and professional standards in its conduct, setting the standard for the entire organization?	Y N	
7. Are personnel involved in accounting functions and or revenue and expense collection and disbursement required to take an annual vacation?	Y N	
8. Are accounting functions performed by other personnel during the vacation of accounting personnel?	Y N	
9. Is other staff trained in the accounting functions to provide backup in the case of vacation or other absence of the primary bookkeeping employees?	Y N	
10. Is responsibility for accounting duties ever rotated among staff?	Y N	

# Where to Start: Where Are the Risks?

Cash, decentralization, no segregation of duties, change, potential for fraud.

Where does the money come from, where does it go?

Where to Start:  
Address the  
Identified  
Weakness

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Authorization controls

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Record controls

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Security controls

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Segregate duties

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Personnel policies

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Reconciliation

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Verification

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Analytic review

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## Government Finance Officers Association Statement on Fraud Prevention

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Fear of detection and punishment is a product of effective internal controls. Weak internal controls both permit and invite irregularities by reducing or removing that fear.

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The single most important step that can be taken to prevent fraud is for management to establish and maintain an effective internal control structure!

## *Control Activities*

Policies & procedures that help ensure mgmt. directives are carried out. Ensure necessary actions are taken to address risks to achievement of objectives

Occur throughout the city/town, at all levels & in all functions.

### **Includes:**

- Segregation of duties
- Approvals
- Authorizations
- Verifications
- Reconciliations
- Performance Reviews

# Implementing Control Activities

01

Authorizations – in writing, in advance, by specific individual(s), documentation (audit trail).

02

Properly designed records – sequential numbering, automatic duplicates, info for multiple purposes, avoid unnecessary info.

03

Security of assets and records – controlled access, physical security, keep confidential records separate from non-confidential records, computer backup, disaster recovery.



# Implementing Control Activities

Periodic reconciliations – i.e. bank reconciliations, accounting record reconciliations (i.e. tax collector to treasurer), reasonableness review.

Periodic verification – i.e. physical inventory, payroll payout.

Analytical review – what's expected vs. what's reported, data entry controls, edit checks, exception reporting, financial vs. non-financial data.

# Sample Control Activities: Transfer Station Operation

Change Risk ⇓ 4	Inherent Risk ⇓ 6	Fraud Risk ⇓ 6
Rapid Growth *Reports	Cash *Remit Daily *Receipts	Financial Stress *HR Resources
Staff Turnover *Supervision *Segregation	Decentralized *Reports	Past Personnel Issues *Clear Expect. *Evaluation

Risk Assessment Matrix					
Severity					
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# SAMPLE Control Activities: Fuel Charges

Change Risk	Inherent Risk	Fraud Risk
New Vendor *Reference Check	Decentralized *Monitor Delivery	Price of Fuel *Monitor Delivery



## POLICIES & PROCEDURES

Policies reflect management or board statements of what should be done to effect internal control.

Such statements should be in writing

Explicitly stated in management communications

Implied through management actions and decisions.



Procedures consist of actions that implement a policy – actions should be described in writing, and this written documentation typically results in the formation of a policy.

These are actions that permeate an entity's activities and that are inherent in the way management operates the entity.

## Control Activities through Policies and Procedures

**Organization deploys control activities that establishes the procedures**

Procedures to support the deployment of Management Directives

Responsibility and Accountability for Executing policies and procedures

Performs controls activities in a timely manner

Takes corrective action

Performs using Competent personnel

Reassesses Policies and Procedures

# Most Common Internal Control Deficiencies



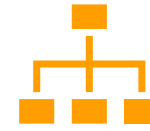
Lack of written financial policies and procedures.



Inadequate cash and receipts procedures.



Inadequate reconciliations.



Lack of personnel policies.



Lack of personnel evaluations.

# Limitations of Internal Controls

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Judgement – decisions made by people under pressure and time constraints, based upon information on hand.

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Breakdowns – lack of understanding, simply making mistakes.

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Management Override – high level management override prescribed policies and procedures.

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Collusion – 2 or more individuals circumventing controls.

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Cost vs. Benefit – risk and effect must be weighed against the cost of establishing controls.

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# Balancing Risks and Controls

Reasonable Assurances:

Excessive Risks – loss of assets, loss of funding, poor decisions, non-compliance, increased regulation, public scandal.

Cost-Benefit

Excessive Controls – increased bureaucracy, complexity, time, non-value-added activities, reduced productivity



# Common Methods of Control Activities

**Authorization** –designed to provide reasonable assurance that all transactions are within the limits set by policy or that exceptions to policy have been granted by the appropriate officials.

**Review and approval** – designed to provide reasonable assurance that transactions have been reviewed for accuracy and completeness by appropriate personnel.

**Verification** – Control activities in this category include a variety of computer and manual controls designed to provide reasonable assurance that all accounting information has been correctly captured.

**Reconciliation** –Provide reasonable assurance of the accuracy of financial records through the periodic comparison of source documents to data recorded in accounting information systems.

**Physical security over assets** –  
Designed to provide reasonable assurance that assets are safeguarded and protected from loss or damage due to accident, natural disaster, negligence or intentional acts of fraud, theft or abuse.

# Internal Control and Financial Reporting

- Institutionalize good financial management practices.
- Formal policies usually outlive their creators, and, thus, promote stability and continuity. They also prevent the need to re-invent responses to recurring issues.
- Clarify and crystallize strategic intent for financial management.
- Financial policies define a shared understanding of how the organization will develop its financial practices and manage its resources to provide the best value to the community.
- Define boundaries. Financial policies define limits on the actions staff may take.
- The policy framework provides the boundaries within which staff can innovate in order to realize the organization's strategic intent.
- Support good bond ratings and thereby reduce the cost of borrowing.
- Promote long-term and strategic thinking.
- The strategic intent articulated by many financial policies necessarily demands a long-term perspective from the organization.
- Manage risks to financial condition.
- A key component of governance accountability is not to incur excessive risk in the pursuit of public goals.
- Financial policies identify important risks to financial condition.
- Comply with established public management best practices.

# Internal Control In the Treasury Function

Internal controls constitute specific policies and procedures (the controls) designed to achieve the objectives of:



Establish formal written procedures



Identifying risks



Creating a separation of duties



Safeguard physical and financial assets



Efficiency of operations



Reliability of financial reporting



Compliance with legal requirements



Minimize opportunities for fraud, employee error

# Internal Controls for Investment Activity

## Investment Authorization

Authorized decision makers

- Guidelines on permitted investments (investment policy) Flexible to respond to changes in the markets
- Restrictive to minimize the risk of fraud or loss

## Investment Selection

Only permitted investments

- Risk reward and market conditions
- Factors to consider: Yield, Maturity, Credit worthiness *Permitted does not equal appropriate*

## Investment Purchase and Payment

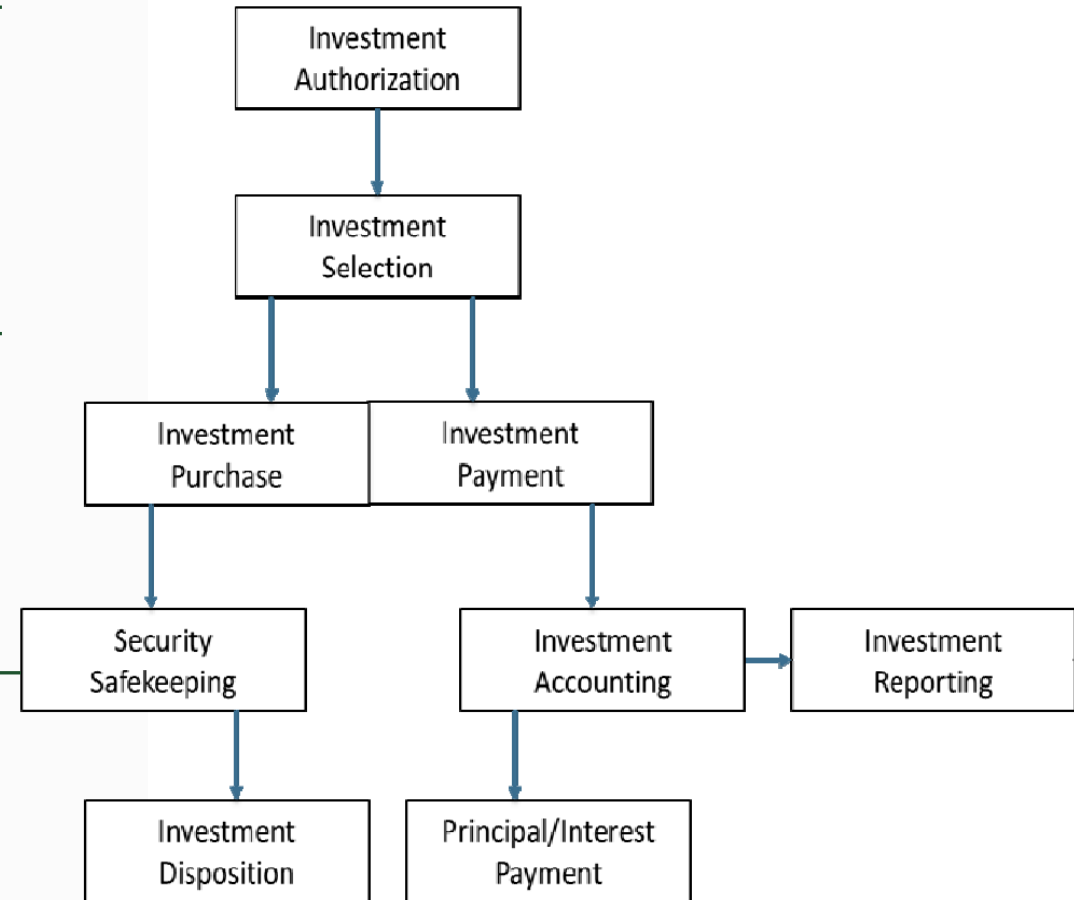
Clearly, well documented transactions

- Trade ticket, custody statement, investment report

## Security Safekeeping

Establishing and maintaining ownership

- Reconcile custody statements and other internal/external reports



Source: Investing Public Funds second edition

# Internal Controls as They Relate To Cash Management

Internal controls specifically ensure:

- The safety of all funds
- The timeliness of recording the receipt of all funds
- That assignment of duties complies with separation of duties guidelines
- That reconciliations are completed and reviewed on a monthly schedule
- A sound audit trail and adequate documentation are created

# Common Methods of Control Activities

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- Segregation of duties – Reduce the risk of error and fraud by requiring that more than one person is involved in completing a particular fiscal process.
- Education, training and coaching – Reduce the risk of error and inefficiency in operations by ensuring that personnel have the proper education and training to perform their duties effectively. Education and training programs should be periodically reviewed and updated to conform to any changes in the agency environment or fiscal processing procedures.
- Performance planning and evaluation – Establish key performance indicators for the agency that may be used to identify unexpected results or unusual trends in data which could indicate situations that require further investigation and/or corrective actions. Evaluations may be done at multiple levels within the agency, as appropriate: the agency as a whole; major initiatives; specific functions; or specific activities.
- Performance reviews may focus on compliance, financial or operational issues. For example, financial reviews should be made of actual performance versus budgets, forecasts and performance in prior periods.

# Segregation of Duties

Although control activity procedures are not intended to increase staffing levels, acceptable procedures are to be established and followed which may require changes in existing workloads and/or additional staff position(s).

A periodic thorough internal review of control activities may identify policies and procedures that are no longer required.

Small to medium size operations may not be able to institute internal control procedures on the same level as larger, more complex agencies.

In cases where staffing limitations may prohibit or restrict the appropriate segregation of duties, management must either have more active oversight of operations or utilize personnel from other units to the extent possible as compensating controls.

# Segregation of Duties

Separation of duties protects the organization and the individual by ensuring that no one person has the ability to control all of the steps involved in handling and accounting for money received by the local government.

**Custody**

**Record Keeping**

**Authorization**

**Reconciliation**

The ideal is that any one person performs no more than 2 functions; three people are needed for the four functions.



# Implementing Control Activities

## Segregate

- Segregate incompatible duties – duties where someone is able to both commit an irregularity and then conceal it:
  - Authorize a transaction
  - Record the transaction
  - Maintain custody of the asset resulting from the transaction

## Provide

- Provide compensating controls when segregation not possible – vacation, periodic rotation of duties, have someone else do the job and see if there is any noticeable change.

## Appoint

- Appoint a Deputy
- Cross train an alternate

## Segregation of Duties

	Receipt of Goods/Custody of Assets	Record Keeping/Document Prep	Authorization/ Approval	Reconciliation Prepared By	Reconciliation, Independent Approver
Receipt of Goods/Custody of Assets	Same Function	Incompatible unless a compensating control is built	Incompatible	Incompatible unless a compensating control is built	Incompatible
Record Keeping/Document Prep	Incompatible unless a compensating control is built	Same Function	Incompatible	Incompatible unless a compensating control is built	Incompatible
Authorization/ Approval	Incompatible	Incompatible	Same Function	Incompatible	Compatible
Reconciliation Prepared By	Incompatible unless a compensating control is built	Incompatible unless a compensating control is built	Incompatible	Same Function	Incompatible
Reconciliation, Independent Approver	Incompatible	Incompatible	Compatible	Incompatible	Same Function

# When Segregation Is Not Possible

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If one person performs two or more of the functions:

- Risk exists that presents the opportunity for something to go wrong
- A compensating control is needed to reduce the risk
- The compensating control might be an extra layer of review

# Examples of compensating controls may include:

A manager/dept head may perform a high level of review of detailed transaction reports

A manager may periodically sample transactions and request supporting documentation to ensure the transactions are complete, appropriate, and accurate.

Someone from another area may perform an external review of a reconciliation.

- For instance, two departments within a municipality may share responsibility to review each others' reconciliations.

Some local governments have a centralized collections and/or financial services department

# Reconciliation & Balancing

What should you reconcile ?

Who should reconcile?



All accounts and transactions-**credit card transactions, accounts payable, accounts receivable, payroll, fixed assets, Due to/Due From accounts, special revenue, and other areas against the general ledger, or balance sheet**

- Reconciliation should be performed by a person with no cash handling responsibilities
- The reconciliation must be dated and signed or initialed
- The reconciliation should be reviewed by an independent party

# Commitment to Competence

Commitment to attract, develop and retain competent individuals aligned to the objectives

- ✓ Establish Policies and Practices
  - ✓ Reflect expectations of competence to support objectives
  - ✓ Define accountability and performance
- ✓ Evaluates Competence and Addresses Shortcomings
  - ✓ Governing Body and Management evaluate competence internally and externally
  - ✓ Requires relevant skills and expertise
- ✓ Attract, Develop and Retain Individuals
  - ✓ Training, mentoring, evaluate, retain
- ✓ Plans and Prepares for succession
  - ✓ Contingency plans for responsibilities for internal controls
  - ✓ Governing Body is responsible, management identifies and assesses

# Developing and Adopting Effective Financial Policies



## EFFECTIVE

- Clear
- Concise
- Use Common Language
- Adopt a standard Template of Format:
  - purpose of the policy, the scope and responsibilities, authority, accountability, definitions and reference accompanying procedures.
- Has stakeholder input and buy-in.
- Easily accessible to staff members, elected officials and the general public.



## APPROPRIATE

- Will out-live their creators
- Flexibility vs Accountability
  - Benefits out-weigh costs;
- Does not create excessive administrative burden.
- Applies to a broad user group across or within the organization.
  - Policies are written for institutions, organizations, departments and positions., not *for or in reaction to* any one individual.



**Questions?**

**Thank You!**

**Katherine Heck**

**Hampshire Municipal Association**

**Office: 603-224-7447**

**[KHeck@nhmunicipal.org](mailto:KHeck@nhmunicipal.org)**



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PRACTICE  
POINTER:  
Custody

Having access to or control  
over any physical asset



Custodians:

Collect and handle  
payments

Prepare deposits

Have access to safes,  
lock boxes, & file  
cabinets where funds  
are kept

# PRACTICE POINTER: Record Keeping



Record keeping is the process of creating and maintaining official records



Record keeping may occur manually or through an automated data system

Customer receipts

Deposit slips

Credit card receipts

Cash register reports

EFT (electronic funds) payment documents

Balancing and reconciliation reports

Record Retention

# PRACTICE POINTER: Paper/Electronic Documentation

Source: Investing Public Funds  
second edition



Documentation is essential for an effective internal controls program in the investment function



Every transaction should be documented with a confirmation from the broker, the custodian and should include specific detail including:

Date of transaction

Buy/Sell

Broker/Dealer

Competitive Bid quotes when appropriate

Account number name

Wire transfer instructions (limited internal control)

Security Description

Investment yield, price

Dollar amount

Maturity of investment

Delivery instructions

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Source: Investing Public Funds  
second edition

PRACTICE POINTER

## Wire Transfer Agreements

Wire transfers typically involve large sums of money

Policies should be in place to minimize risk of loss

- Listing of accounts
- Custody functions
- Authorized personnel and dollar limits
- Allowable types of communications (email, verbal, fax)
- Requirement that the instructions are on letterhead
- Confirmation and notification procedures
- Bank liability

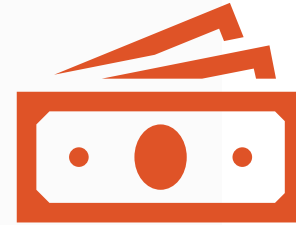
Source: Investing Public Funds  
second edition



# PRACTICE POINTER: Authorization



Authorization is the process of granting formal approval to perform a specific function



For example, someone must be authorized in order to perform one of the following functions:

Verify cash collections

Review daily balancing reports

Approve discounts, voids, or refunds

# PRACTICE POINTER: Authorization

- The person who originally created a transaction should not be:
  - The one who makes a correction
  - The one who creates a void
  - The one who creates/approves a refund
- The best practice is to have a supervisor/department head/manager, etc., take these actions



# PRACTICE POINTER: Custody – System Passwords

Every person must have their own password

Passwords must never be shared

Don't write your passwords down

If you need to leave the work area, sign off your password; log back on when you return

Passwords should be changed periodically

Passwords should be inactivated whenever a custodian vacates the position

## PRACTICE POINTER- Develop General Controls over Technology

Organization selects and develops control activities over technology that supports the achievement of objectives

- Determines dependency on Technology in processes
  - How much of the process is automated
  - Deployed to ensure automation works properly
- Establishes relevant technology infrastructure
  - Designed to help ensure completeness, accuracy and availability of the process
  - Networking, computing resources
  - Can be internal or external
- Establishes relevant security management
  - Restrict to authorized users
  - Which users can execute transactions
- Establishes relevant technology development and maintenance of process controls
  - Provides a structure for system design
  - Documentation, approvals, checkpoints