



INTERNAL CONTROLS

2018 ALASBO



INTERNAL CONTROLS

Agenda:

- Hot topics
- Internal Controls
- Summary



TODAY'S ENVIRONMENT



Today's Environment

Hot Topics

- Information Security/Cyber Security
- Vendor management and 3rd party risk
- Regulation and Compliance
- Speed of Change of Technology
- Reputational Risk
- Legal Risk
- Fraud Risk



INTERNAL CONTROLS



Defining Internal Control

“Internal control 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.” - COSO

“Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.” - Institute of Internal Auditors, IPPF



Control Environment

The control environment is the foundation on which an effective system of internal control is built and operated in an organization that strives to:

- achieve its strategic objectives
- provide reliable financial reporting to internal and external stakeholders
- operate its business efficiently and effectively
- comply with all applicable laws and regulations, and
- safeguard its assets



Control Environment

Definition

The attitude and actions of the board and management regarding the significance of control within the organization. The control environment provides discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.



Control Types

- **Preventative Controls** - Designed to discourage errors or prevent irregularities from occurring. They are proactive controls that help prevent a loss. Examples: Separation of duties, proper authorization, adequate documentation, and physical control over assets.
- **Detective Controls** - Designed to find errors or irregularities after they have occurred. Examples: Reviews, analyses, variance analyses, reconciliations, physical inventories, and audits.



Internal Control Components*

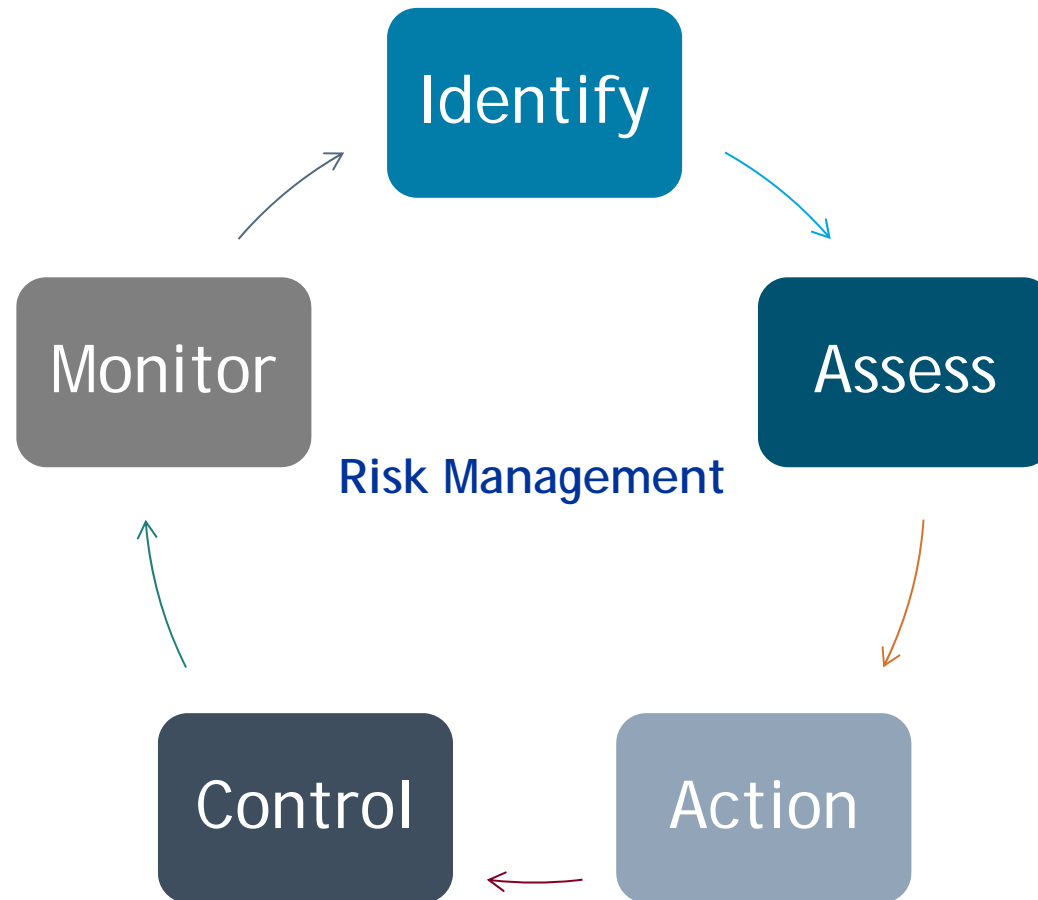
- **Control Environment** - set of standards, processes, and structures that provide the basis for carrying out internal control across the organization.
- **Risk Assessment** - involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives.
- **Control Activities** - the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out.
- **Information and Communication** - the process of identifying, gathering and communicating/sharing necessary information.
- **Monitoring Activities** - ongoing evaluations used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning.

*COSO - 2013 Internal Control-Integrated Framework, On May 14, 2013, the COSO released an updated version of its "Internal Control - Integrated Framework," which was published originally in 1992.

Internal Control Hot Topics

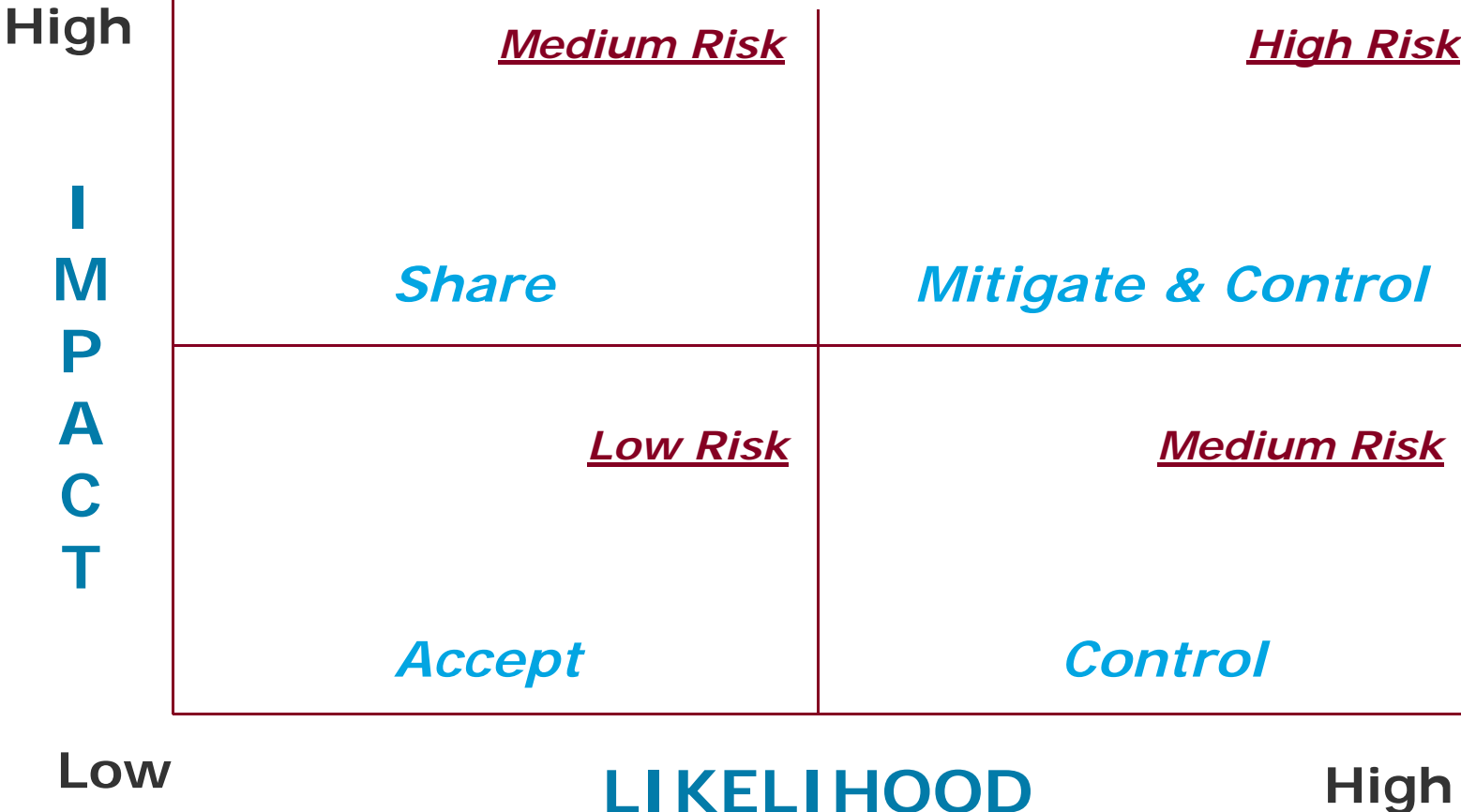


Risk Management Process





Managing Risk





SUMMARY



Action Points for Internal Control

- Understand the organization's strategic, business, legal, and compliance risks.
- Develop in-depth knowledge of the organization.
- Develop high levels of competence in technology tools.
- Hire and train for the skill sets to meet the demand for their services.
- Communicate risks in the context of the organization's goals and objectives.
- Provide an overall opinion on how the organization is managing itself.
- Advise the audit committee/school board on a regular basis of the issues it should be most concerned about.
- Give an overview of the control environment and whether it is improving or becoming ineffective.
- Be Courageous (tell stakeholders the truth)



Resources

ALASBO Members Internal Control Tools

* Standard Operating Procedures (SOP) templates -

<http://www.alasbo.org/2018/05/18/standard-operating-procedures-sops/>

* ALASBO Improvement Model (AIM) -

<http://www.alasbo.org/2018/01/05/alasbo-improvement-model-aim/>

Additional Resource for Small School

SEGREGATION OF FINANCIAL DUTIES IN THE SMALLER PUBLIC SCHOOL TO IMPROVE FINANCIAL INTERNAL CONTROLS - Developed by the IOWA Association for School Business