

## Internal Controls

Financial Management Training

April 23, 2009

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## Definition

- Financial Integrity and State Manager's Accountability Act of 1983 (FISMA) provides a broad view of internal control, recognizing that controls must safeguard assets, provide accurate and reliable financial information, promote operational efficiency, and encourage adherence to office policies and procedures.

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## Key Points

- People at every level of an organization affect internal control
- Effective internal controls help an organization achieve its operations, financial reporting, and compliance objectives.
- Internal controls can provide only a reasonable assurance regarding the achievement of an organization's objectives.

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### CSD Requirements

CSD contract requires establishment and maintenance of internal accounting and administrative controls, including:

- \* An examination of the systems of internal control by the Independent CPA
- \* Segregation of duties appropriate to safeguard state assets
- \* Limited access to agency assets

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### CSD Requirements (continued)

- Accounting and recordkeeping procedures adequate to control assets, liabilities, revenues, and expenditures
- Sound policies and procedures
- Qualified personnel to carry out their responsibilities
- Effective internal review

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### What Are We Looking For?

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### Documentation

Internal Controls are maintained

- Flowcharts or narratives documenting procedures and controls are maintained
- Duty Statements
- Review reasonableness of procedures
- Analyze and identify potential risks

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### Segregation of Duties

- Identify fiscal and accounting functions to determine conflicting duties
- Analyze staff duties and report any weaknesses

*\*Management is responsible for ensuring adequate separation*

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### Authorizations

- Authorizations are on file
  - \* General
  - \* Specific
- Authorizations need to be maintained/updated as needed

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### Procurement

- Purchase of goods and services must be properly authorized
- Authorized goods are received timely and accounted for
- Any adjustments and claims are properly documented (discounts, rebates)
- Ensure open and fair competition
- Arms length transaction free of conflicts of interest

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### Procurement (continued)

- All procurements exceeding \$5,000 must have three competitive bids documented in files
- Non-competitive bids must be justified
- Obtain separate CSD approval for each procurement over \$5,000/contracts exceeding \$100,000
- Refer to 45 CFR 74.43-74.46 for federal procurement regulations (<http://ecfr.gpoaccess.gov>)

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### Disbursements

- Cash disbursements are properly recorded in the accounting records
- Test expenditures to supporting documentation, including the following: invoices, purchase orders, receiving reports, contracts, check registers, bank statements, payroll documentation, etc.
- Blank checks/signing machines are safeguarded from unauthorized use
- Bank reconciliations are prepared and reviewed monthly

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### Property

- Independent auditor or CPA firm must gather evidence to validate the property/inventory purchased with CSD contract funds
- Property purchased with CSD funds must be identified by funding source in the inventory listings
- Inventory listings must be complete, accurate, and properly recorded

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### Property (continued)

- Existence of property/inventories must be verified and in operable condition
- Dispositions must be properly approved and documented
- Procedures exist for taking physical inventory

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### Questions?

Please email your questions to:

[Audits@csd.ca.gov](mailto:Audits@csd.ca.gov)

Thank you for your participation!

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