



The North Carolina Office of the State Controller

Internal Controls over Accounts Payable and Expenditure Processes

March 30, 2010

**David McCoy
State Controller**



Introduction

Administrative Items

- Please “Mute” your phones. Do not place on “Hold”.
- Course materials have been provided in advance.
- Qualifies for up to 2 hours of CPE.
- Polling questions.
- Use chat pod for questions.
- For technical assistance – Call Josh at (919) 707-0765.





Introduction

Agenda

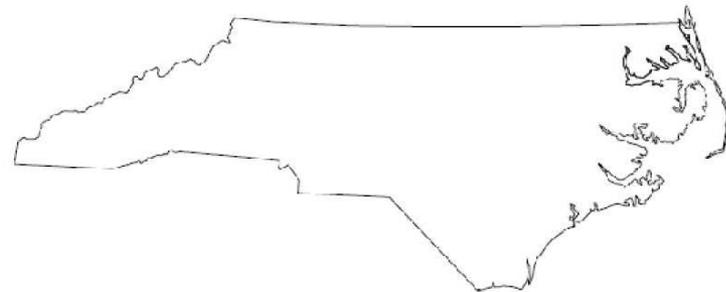
<u>Estimated Time</u>	<u>Topic</u>
10:00 - 10:10	<i>Welcome and Introduction - Ben McLawhorn</i>
10:10 - 10:30	<i>Overview of Internal Controls - Jennifer Trivette</i>
10:30 - 10:45	<i>Summary of Overpayments Audit - Amanda Williams</i>
10:45 - 11:00	<i>Fraud in the Media- Amanda Williams</i>
11:00 - 11:30	<i>Understanding Risk and Mitigating Controls - Wynona Cash</i>
11:30 - 11:35	<i>Key Take-Aways - Wynona Cash</i>
11:35 - 11:45	<i>Questions and Answers - Amanda Williams</i>



Introduction

North Carolina General Statute **143D-7** states:

“The management of each State agency bears full responsibility for establishing and maintaining a proper system of internal control within that agency. Each principal executive officer and each principal fiscal officer shall annually certify, in a manner prescribed by the State Controller, that the agency has in place a proper system of internal control...”





Introduction

Chapter 143D defines State agency as:

“Any department, institution, board, commission, committee, division, bureau, officer, official, or any other entity for which the State has oversight responsibility, including, but not limited to, any university, mental or specialty hospital, community college, or clerk of court.”





Introduction

North Carolina General Statute **143D-6** states:

“The State Controller, in consultation with the State Auditor, shall establish comprehensive standards, policies, and procedures to ensure a strong and effective system of internal control within State government. These standards, policies, and procedures shall be made readily available to all State agencies.”



Introduction

Enhancing
Accountability in
Government through
Leadership and
Education





Introduction

EAGLE is an internal control methodology established to assist state agencies in meeting their statutory responsibility as put forth in Chapter 143D of the North Carolina General Statutes, the “State Governmental Accountability and Internal Control Act”.





Introduction

North Carolina General Statute **143D-6** also states:

*“ . . . the State Controller shall make appropriate education efforts to inform relevant State agency staffs of the standards, policies, procedures, and internal control practices. These efforts shall include the development of **training courses** . . . to promulgate internal control standards, policies, procedures, and best practices throughout all State agencies.”*





Introduction

Why does the State need an internal control program?

- Public's growing expectations for effective operations and accountability
- Solidifies the State's status as a national leader in governmental accountability and fiscal management





Introduction

Why accounts payable and expenditures?

- Current economic conditions
- Presidential Executive Order 13520, “Reducing Improper Payments and Eliminating Waste in Federal Programs”
- Results of recent overpayments audit





Polling Question 1



Overview of Internal Controls



Overview of Internal Controls

A control is any action taken to mitigate or manage risk and increase the probability that the organization's process will achieve its goal or objectives.





Overview of Internal Controls

What do we mean by “internal control”?

Internal control is an integral process, effected by an entity’s governing body, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Effectiveness and efficiency of operations



Overview of Internal Controls

Why do we need internal controls?

- Internal controls provide a foundation for accountability, and, while they are important in the private sector, sound controls are imperative in government. Public trust depends on nothing less.
- Internal controls are the checks and balances that help managers detect and prevent problems. They can be as simple as computer passwords or having a manager sign off on a time sheet, or as complex as installing software to perform an automatic three-way match.



Overview of Internal Controls

Types of Internal Control Activities:

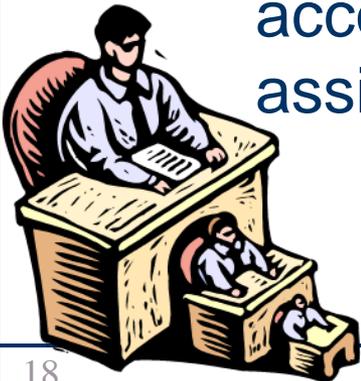
- Adequate segregation of duties
- Proper authorization of transactions and activities
- Adequate documentation and records
- Physical control over assets and records
- Independent checks on performance



Overview of Internal Controls

Adequate segregation of duties

- Requires different individuals be assigned responsibility for different elements of related activities, particularly those involving authorization, custody, or recording.
- For example, responsibilities for performing ordering/purchasing, receiving of goods, approval of invoices, and posting to the accounting records should be segregated and assigned to different persons.





Overview of Internal Controls

Proper authorization of transactions and activities

- Requires the review of transactions by an appropriate person to ensure that all activities adhere to established guidelines, it may be general or specific.
- For example:
 - Giving a department permission to expend funds from an approved budget-general authorization.
 - Review and approval of an individual transaction-specific authorization.



Overview of Internal Controls

Adequate documentation and records

- Provide evidence that financial statements are accurate. The source documents ensure adequate recordkeeping.
- For example, pre-numbered checks, original invoices stamped paid, etc.



Overview of Internal Controls

Physical control over assets and records

- The most important measure for safeguarding assets and records is the use of physical precautions – limit access to assets/records
 - Physical Controls – fireproof file cabinets, safe, security cameras
 - Access Controls – passwords, ID cards
 - Backup and recovery procedures – Disaster Recovery Plan

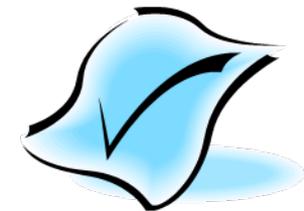




Overview of Internal Controls

Independent checks on performance

- The need for independent checks arises because internal controls tend to change over time unless there is a mechanism for frequent review.
- For example, three-way match is performed whereby the invoice is automatically matched to the approved PO and Goods Received report. In addition, the CFO reviews and approves the release of the payments/checks.





Overview of Internal Controls

What is the difference between a procedure and a control?

- A procedure is a series of steps taken to accomplish an end; they detail the established/prescribed methods to be followed. They describe “how it should be done”.
- A control is a series of checks and balances that help managers detect and prevent errors.





Overview of Internal Controls

- Management uses a mix of **Preventive Controls** and **Detective Controls**
- And a combination of **Manual Controls** and **Automated Controls**



Overview of Internal Controls

Preventive Controls

Controls used by management to prevent errors from occurring, i.e. stop something from going wrong.



Overview of Internal Controls

Examples of Preventive Controls:

- Segregation of duties
- Authorization of payments prior to processing
- Restricting user access to IT systems



Overview of Internal Controls

Detective Controls

Control activities that are designed to detect and correct in a timely manner an error or irregularity that would materially affect the achievement of the organization's objectives.



Overview of Internal Controls

Examples of Detective Controls:

- General ledger reconciliations
- Review of exception reports
- Quarterly review of system access



Overview of Internal Controls

A combination of
Manual Controls and **Automated Controls**



Overview of Internal Controls

Manual Controls

Control activities that requires an action by the control owner to prevent or detect an error or fraud.





Overview of Internal Controls

Examples of Manual Controls:

- Independent review of general ledger reconciliations
- Authorization of employee expense reports
- Review and approval of journal entries



Overview of Internal Controls

Automated Controls

Control activities within a system that do not require action by the control owner to prevent or detect an error or fraud.





Overview of Internal Controls

Examples of Automated Controls:

- Automated three-way match
- Data input validation checks
- Restricted user access



Overview of Internal Controls

Summary

- Internal control
- Types of controls
 - Segregation of duties
 - Authorization of transactions
 - Adequate documentation
 - Physical control over assets
 - Independent checks on performance



Overview of Internal Controls

Summary (cont.)

- Control vs. Procedure
 - Preventive
 - Detective
 - Manual
 - Automated



Overview of Internal Controls

Polling Questions 2 & 3



Summary of Overpayments Audit



Summary of Overpayments Audit

North Carolina General Statute **147-86.22** states:

“(T)he State Controller shall negotiate a contract with a third party to perform an audit and collection process of inadvertent overpayments by State agencies to vendors as a result of pricing errors, neglected rebates and discounts, miscalculated freight charges, unclaimed refunds, erroneously paid excise taxes, and related errors.”



Summary of Overpayments Audit

Overpayments Audit Exclusions:



Medical Services
Institutional Trust Funds
Community Colleges
Telecommunication Services
Invoices or payments already in dispute



Summary of Overpayments Audit

Audit Process:

- Auditor reviews accounts payable data file
- Auditor solicits vendor accounts receivable statements
- Auditor identifies possible overpayments and presents claims to agency for approval
- Auditor presents all documentation to OSC for approval
- Auditor begins collection process
- Vendor or agency remits funds to OSC



Summary of Overpayments Audit

Recoveries to Date

- FY 1996 through FY 2004 → \$4,564,276.85
- FY 2005 through FY 2008 → \$ 477,074.49



\$5 million



Summary of Overpayments Audit

Error Categories:

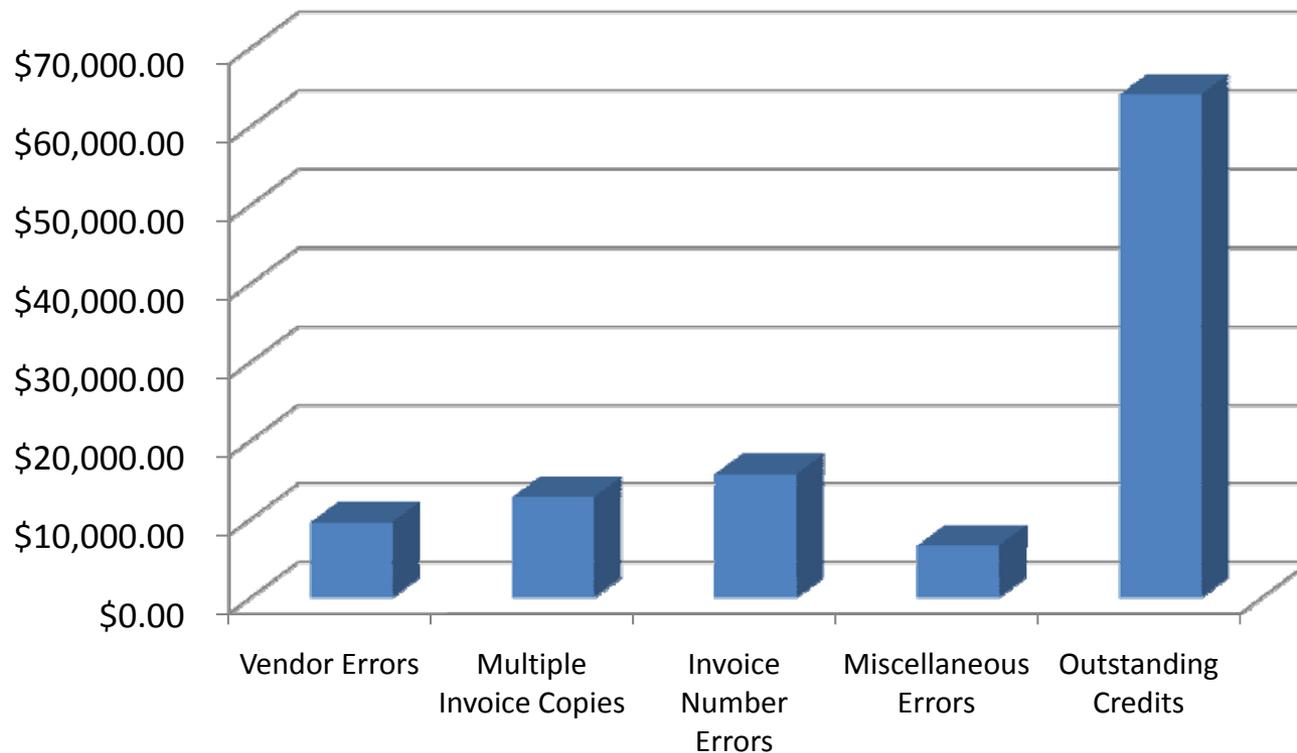
- ✘ Outstanding Credits
- ✘ Vendor Errors
- ✘ Multiple Invoice Copy Errors
- ✘ Invoice Number Errors
- ✘ Miscellaneous Errors



Summary of Overpayments Audit

Agencies (FY 2007-2008)

Error Type by Dollar Impact

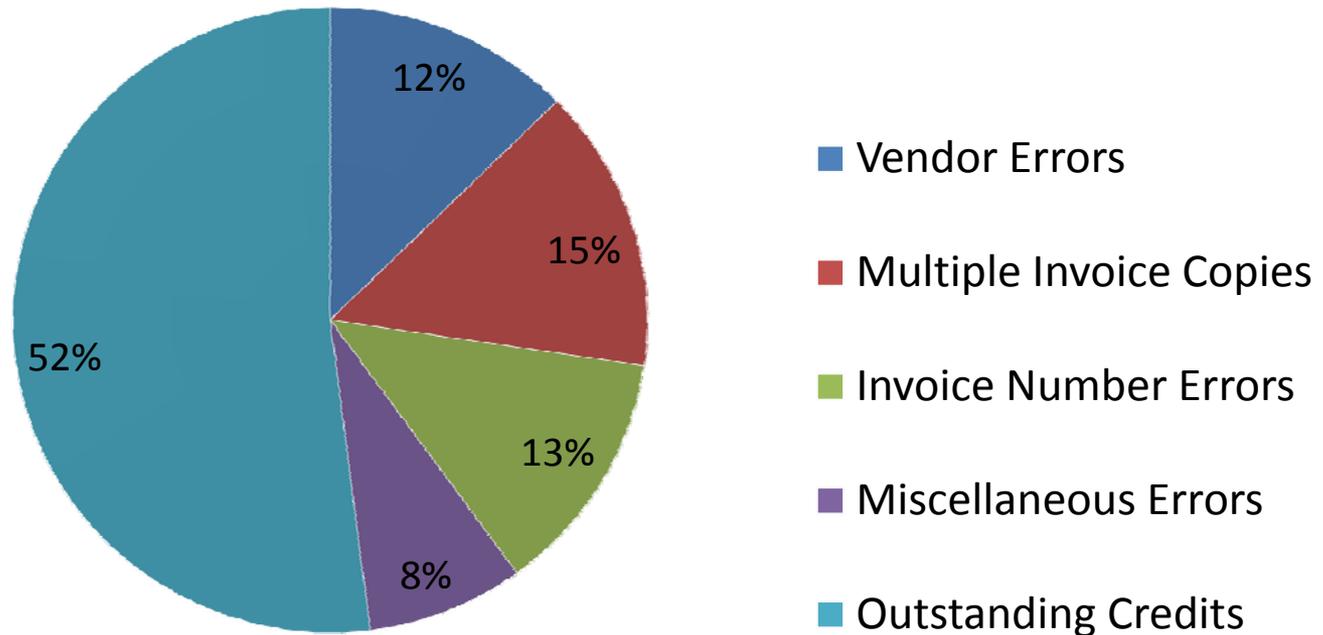




Summary of Overpayments Audit

Agencies (FY 2007-2008)

Percent Errors by Type





Summary of Overpayments Audit

Results by Agency (FY 2005-2008)

	Transactions Reviewed *	Claim Amount	% Total Amount	Total Errors	% Errors
1	1,146,290	\$ 90,336.08	0.001%	216	0.019%
2	279,924	\$ 17,372.98	0.008%	20	0.007%
3	257,663	\$ 112,152.95	0.013%	170	0.066%
4	254,342	\$ 80,435.90	0.013%	129	0.051%
5	123,086	\$ 30,941.21	0.007%	101	0.082%
6	76,435	\$ 10,837.12	0.007%	24	0.031%
7	61,705	\$ 7,210.78	0.009%	10	0.016%
8	61,677	\$ 39,711.02	0.014%	62	0.101%
9	33,581	\$ 8,970.13	0.014%	24	0.071%
10	26,209	\$ 8,897.36	0.006%	20	0.076%
11	22,084	\$ 1,327.45	0.002%	7	0.032%
12	16,982	\$ 2,102.88	0.003%	4	0.024%
13	13,610	\$ 18,326.00	0.027%	3	0.022%
14	11,121	\$ 1,800.00	0.001%	1	0.009%
15	7,753	\$ 633.98	0.001%	4	0.052%
16	6,896	\$ 156.00	0.001%	1	0.015%
17	4,656	\$ 888.80	0.032%	3	0.064%
18	3,338	\$ 1,918.84	0.008%	5	0.150%

 Highest % Total
 \$ Amount

 Lowest % Total
 \$ Amount

* Sorted by
 # Transactions
 Reviewed



Summary of Overpayments Audit

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 Highest
 % Errors

 Lowest
 % Errors

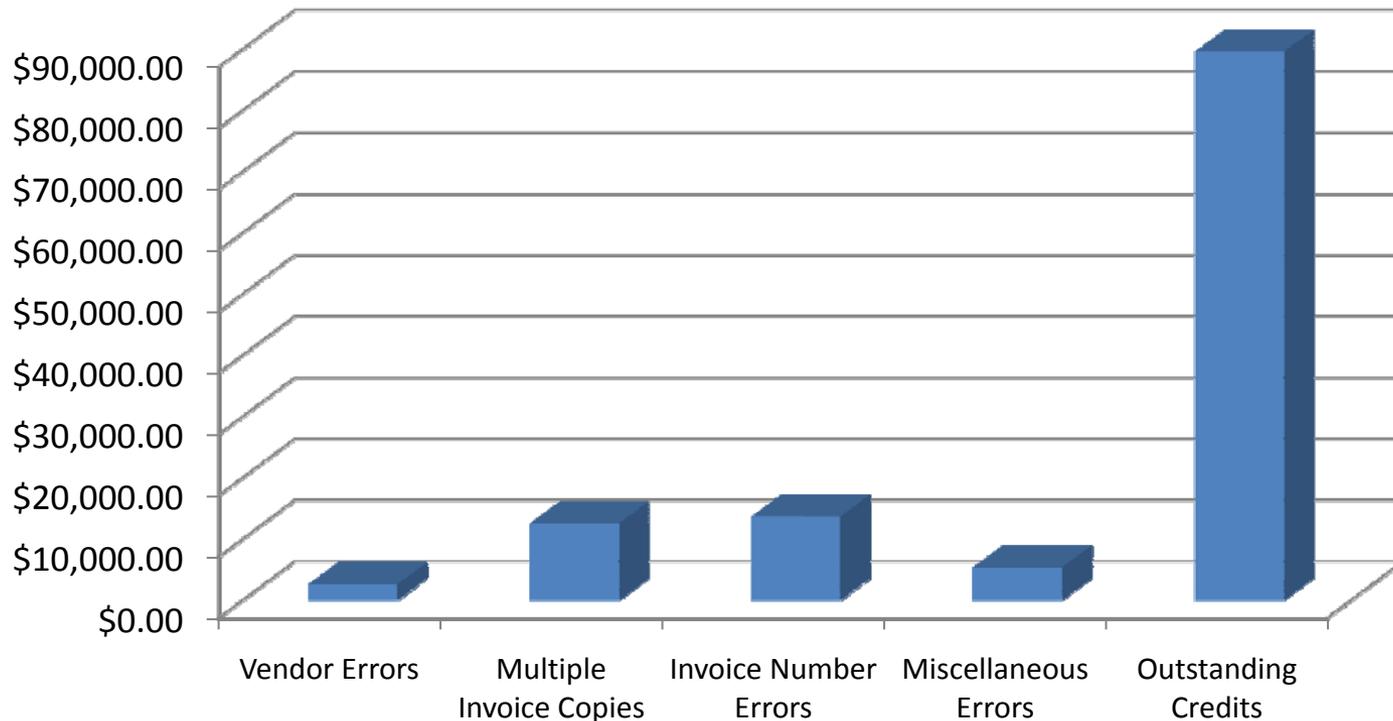
* Sorted by
 # Transactions
 Reviewed



Summary of Overpayments Audit

Universities (FY 2007-2008)

Error Type by Dollar Impact

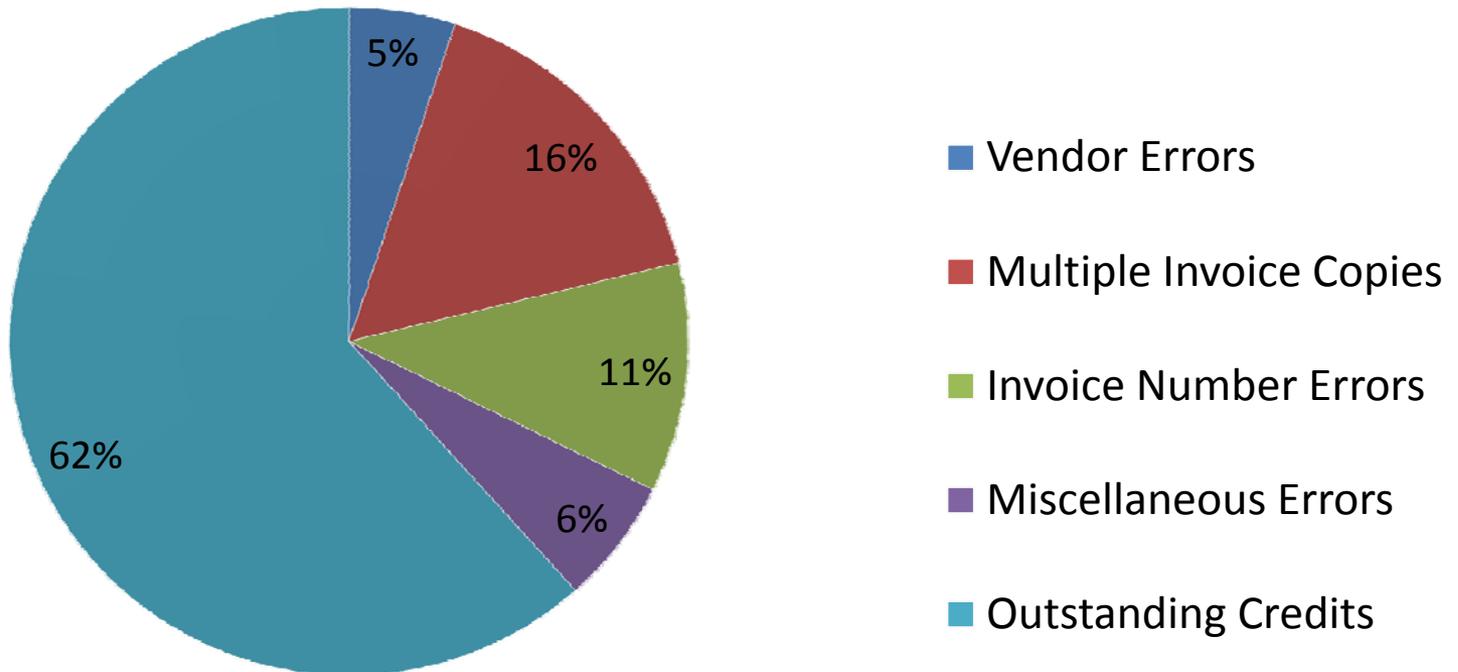




Summary of Overpayments Audit

Universities (FY 2007-2008)

Percent Errors by Type





Summary of Overpayments Audit

Results by University (FY 2005-2008)

	Transactions Reviewed *	Claim Amount	% Total Amount	Total Errors	% Errors
1	302,382	\$ 35,237.15	0.0033%	27	0.009%
2	269,343	\$ 77,868.29	0.0072%	136	0.050%
3	191,299	\$ 19,021.96	0.0032%	15	0.008%
4	153,540	\$ 1,323.08	0.0002%	9	0.006%
5	142,393	\$ 33,203.35	0.0062%	52	0.037%
6	108,029	\$ 6,571.35	0.0005%	11	0.010%
7	86,075	\$ 1,836.07	0.0014%	6	0.007%
8	61,541	\$ 8,570.54	0.0052%	6	0.010%
9	54,678	\$ 8,217.84	0.0029%	7	0.013%
10	50,606	\$ 12,199.27	0.0052%	19	0.038%
11	46,077	\$ 2,307.26	0.0027%	5	0.011%
12	45,478	\$ 24,053.65	0.0181%	14	0.031%
13	44,673	\$ 4,492.47	0.0066%	5	0.011%
14	41,286	\$ 18,964.85	0.0114%	23	0.056%
15	36,825	\$ 20,728.44	0.0185%	19	0.052%
16	35,752	\$ 11,588.79	0.0099%	21	0.059%
17	35,752	\$ 7,154.09	0.0052%	15	0.042%

 Highest % Total
\$ Amount

 Lowest % Total
\$ Amount

* Sorted by
Transactions
Reviewed



Summary of Overpayments Audit

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■ Highest

% Errors

■ Lowest

% Errors

* Sorted by

Transactions

Reviewed



Summary of Overpayments Audit

Outstanding Credit Errors:

- Credit memos not presented to A/P
- Invoice adjustments
- Payments to wrong vendor
- Overpayments to vendors



Summary of Overpayments Audit

Vendor Errors:

- Multiple vendor numbers for same vendor
 - multiple remit to addresses
 - vendor name listed different ways
- Selecting the wrong vendor carelessly
 - (ex. Custom Hydraulics / Hydraulics Plus)
- Selecting vendor names that are similar
 - (ex. Grainger / Graybar)
- Selecting vendor numbers that are similar

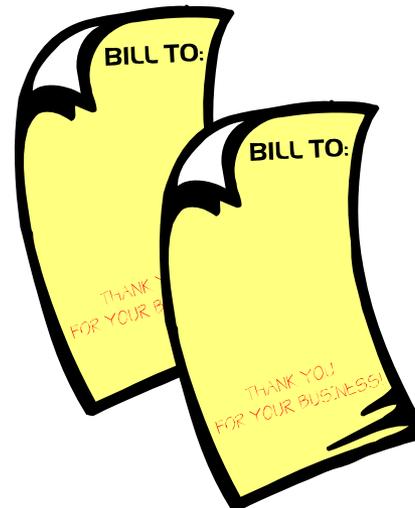




Summary of Overpayments Audit

Multiple Invoice Copy Errors:

- Duplicate copies and past due reminders
- Non-invoice documents (e.g., statements or receiving documents)
- Faxed invoices





Summary of Overpayments Audit

Invoice Number Errors:

- Transposed numbers
- Inconsistency in keying the invoices
 - Dashes
 - Spaces
 - Leading zeros
 - Alpha prefixes or suffixes





Summary of Overpayments Audit

Miscellaneous Errors:

- Invoices without invoice number
- Paid by P-card and submitted for payment through A/P
- Invoices entered with different dates (can not read the date, entered the shipping date, keying errors)
- Missed discounts



Summary of Overpayments Audit

Example:

Imaging Technologies Services Incorporated

Remit to:

PO Box 13426

Atlanta GA



Summary of Overpayments Audit

Imaging Technologies Services Incorporated (Original)



Reprographics
Color Imaging
Equipment
Software

REMIT TO
Imaging Technologies Services, Inc.
PO Box 13426
Atlanta, GA 30324

INVOICE

ITS-ASHEVILLE
IMAGING TECHNOLOGIES
45 ASHELAND AVENUE
ASHEVILLE NC 28801
(828) 254-9536 Ext. 0000

INVOICE NO.	3111NV-0089681
PAGE	1

Job#/Cost Center#

DATE	1/25/2007
ORDERED BY	[REDACTED]

JOB NO.	WAYFINDING SIGNS
JOB NAME	WAYFINDING SIGNS

Plan Center Ref#

Reprographics
Color Imaging
Equipment
Software

3111NV-0089681

1/25/2007



Summary of Overpayments Audit

Check for Imaging Technologies Services Incorporated

PAY ***Two Hundred Ninety Nine & 70/100 Dollars**
TO THE ORDER OF

Imaging Technologies Services Incorporated
PO Box 13426
Atlanta GA 30324

VENDOR ID

930188732



Summary of Overpayments Audit

Reprographics Division (Faxed Copy)

FROM : IMAGING TECHNOLOGIES - RUL

FAX NO. : 8282538467

Mar. 14 2007 02:28PM P 1

Reprographics Division
640 10TH STREET
ATLANTA GA 30318

HISTORICAL

Invoice	311INV-0089681
Date	1/25/2007
Page	1

Invoice	311INV-0089681
Date	1/25/2007



Summary of Overpayments Audit

Check to Reprographics Division

PAY ***Two Hundred Ninety Nine & 70/100 Dollars**
TO THE ORDER OF

Reprographics Division
640 10th St
Atlanta GA 30318

VENDOR ID

930218376



Summary of Overpayments Audit

Outstanding Credit Errors – Recommendations:

- Periodically review statements of high dollar vendors.
- Track returned items to ensure credit memos are issued.





Summary of Overpayments Audit

Vendor Errors – Recommendations:

- Review vendor master file regularly to:
 - Flag inactive vendors
 - Identify address errors
 - Identify multiple vendor numbers
- Verify that the vendor name and remit to address in the A/P system match the name and address on the invoice.



Summary of Overpayments Audit

Multiple Invoice Copy Errors – Recommendations:

- Whenever possible, only pay from original invoices.
- If faxed copies are unclear, request another copy.

- Do Not Guess

Invoice	311INV-0089681
Date	1/25/2007
Page	1

- Search by invoice number and amount to determine if already paid.



Summary of Overpayments Audit

Invoice Number Errors – Recommendations:

- Be consistent – Set rules for input:
 - No leading zeros
 - No dashes
 - No spaces
- Never alter the invoice number to force it into the system.
 - Do not add alpha characters.



Summary of Overpayments Audit

Miscellaneous Errors – Recommendations:

- Set rules for entering invoices without numbers.
- Be aware of vendors that are paid by P-card.
- Be aware of dates on invoice and select only the invoice date. Verify the correct date.
- Be aware of discount rules.





Summary of Overpayments Audit

What's Next?

- Individual agency results will be emailed to CFO
- FY 2009 – 2011 RFP issued
- Overpayments website link

<http://www.osc.nc.gov/programs/overpayments/index.html>



Summary of Overpayments Audit

Polling Questions 4 & 5



Fraud in the Media



Fraud in the Media

What is Fraud

Any illegal act characterized by deceit, concealment, or violation of trust.

Fraud is committed to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.



Fraud in the Media

Embezzlement

To steal or misappropriate funds for personal use in violation of a trust.

Collusion

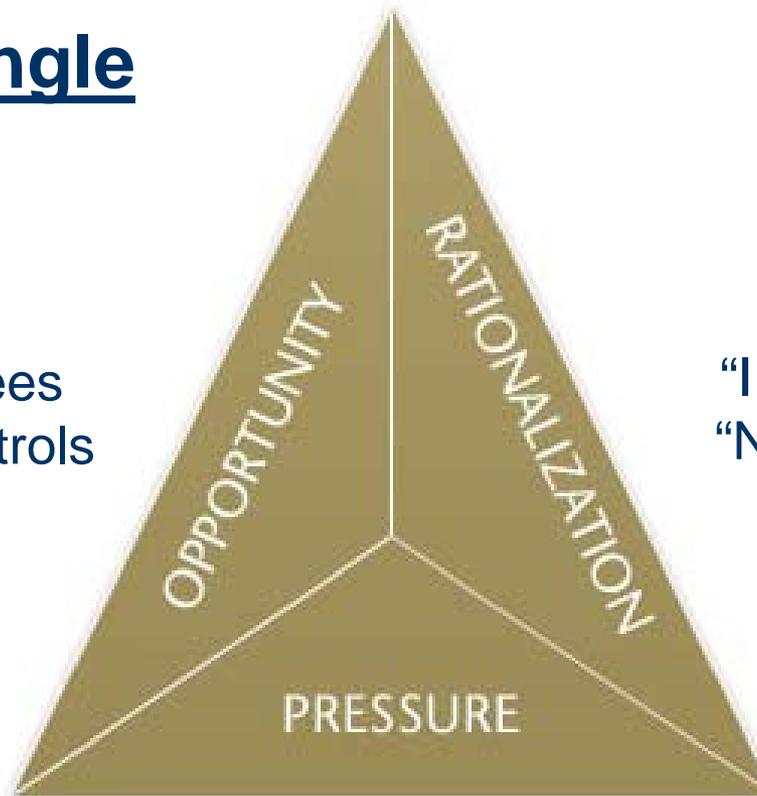
A secret agreement between persons to defraud another.



Fraud in the Media

Fraud Triangle

Trusted Employees
Weakness of Controls

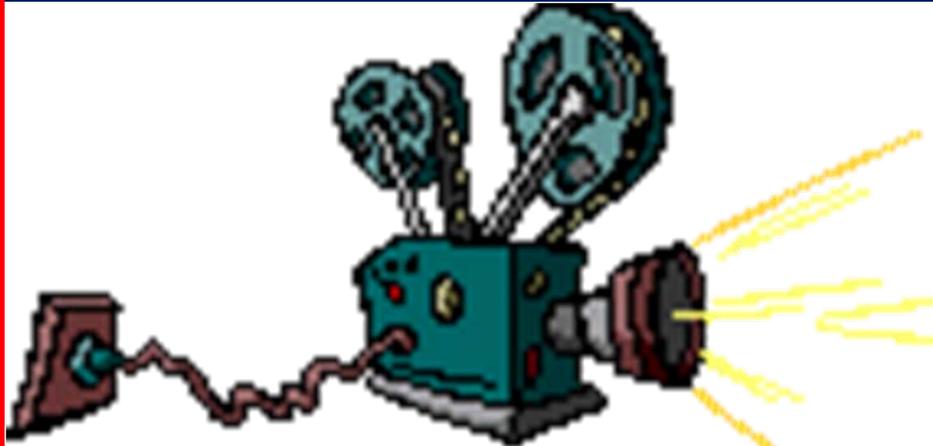


“I have bills to pay.”
“No one will notice.”

Unstable Economy
Financial Problems



Fraud in the Media



Videos





Fraud in the Media

Video links:

<http://www.youtube.com/watch?v=p1jaA2u9Y5M>

Mount Airy embezzlement

http://www.youtube.com/watch?v=U0_O95NDvKE

Vermont embezzlement

<http://www.youtube.com/watch?v=i2yxd4FNf4c>

Wisconsin embezzlement



Fraud in the Media

Wake county schools example

Paperwork Reveals Problems Within Wake Schools' Transportation Dept.

Posted: September 3, 2004

RALEIGH, N.C. — Hundreds of invoices show lots of transactions between Wake County Schools' Transportation Department and a Wilson-based supplier Barnes Motor and Parts. Those dealings are now under scrutiny by the State Bureau of Investigation, causing a major shake-up.

Four years ago, 12 percent of Wake County schools' transportation supply budget went to the Wilson-based supplier. Last year, that number was up to 66 percent, totaling more than \$4 million. No other supplier even came close.

Some invoices describe the products ordered while others did not. SBI agents will look closely at the invoices, the descriptions, and what was actually received.

The school system suspects it overpaid Barnes Motor and Parts and its Raleigh office. There are also concerns the transportation department did not follow state purchasing laws. Orders for the same item were sometimes separated to keep the total for each invoice under \$2,500 -- the maximum for parts not under state contract.

Source: WRAL

Fraud in the Media

Vendor fraud example

Warrant: Woman tried to bilk nearly \$1 million from state of Fla.

Posted: May. 10 11:34 p.m.

Updated: Today at 7:28 a.m.

RALEIGH, N.C. — A Raleigh woman is facing charges after police say she tried to steal nearly \$1 million from the state of Florida.

According to the arrest warrant, Angella Muthoni Chegge-Kraszeski, 33, of 12500 Garden Tree Lane, started up a business to steal from a Florida corporation with a similar name. She used the alias Christina Ann Clay to set up a corporation called Electronic Data Systems in North Carolina and a business bank account with a SunTrust branch in Raleigh, the warrant says.



Angella Chegge-Kraszeski

On The Web

- [NC Wanted: Read More Crime News or Report a Tip](#)

Site Search

Search

Source: WRAL



Polling Question 6



Understanding Risk and Mitigating Controls

Understanding Risk and Mitigating Controls



Risk and Control

Risk is the probability that an event or action will adversely affect the organization.

Control is any action taken to mitigate or manage risk and increase the probability that the organization's process will achieve its goal or objectives.



Understanding Risk and Mitigating Controls



Aspects of Internal Control

- Internal control is a process. It is a means to an end, not an end in itself.
- Effected by a state entity's management and other personnel. It is not merely policy manuals and forms, but people at every level of an agency.
- Internal control is pervasive throughout a state entity, impacting all aspects including people, process and technology.
- Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an entity's management.

Understanding Risk and Mitigating Controls



What Should We Know About Controls?

- Controls help state entities achieve objectives by mitigating the risk.
- The significance of a control relates back to the significance of the risk it is mitigating.
- Risks may be over or under controlled (cost vs. benefit).
- One control may mitigate multiple risks.
- Multiple controls may be required to mitigate one risk.



Understanding Risk and Mitigating Controls



What could go wrong (Risk)?

- Inaccurate Financial Reporting
- Large Fines and Settlements
- Loss of Assets
- Noncompliance with Regulations
- Public Scandals
- Poor Business Decisions
- State Auditor Findings



Understanding Risk and Mitigating Controls



State Auditor Finding:

ACCOUNTING CLERK INITIATED PAYMENTS TO A FICTITIOUS VENDOR.

From January 1, 20XX through July 30, 20XX, an Accounting Clerk in the department generated 14 checks payable to "BR Smith," totaling \$27,931.60. Thirteen of the checks were cashed for \$25,356.46. An examination of the invoices revealed that the invoice numbers were out of sequence with the dates. The invoices did not detail the services or materials provided. The address for the payee was Table Grove, Illinois, but the checks were cashed at the State Employees' Credit Union in Raleigh and Wilson, North Carolina. The invoices were stamped "Approved for Payment," but the person whose signature was on the authorization said she did not sign the approval. The Accounting Clerk had requested that the Department Controller's Office deliver the checks to her rather than mailing them to the vendors.

Understanding Risk and Mitigating Controls



State Auditor Finding:

DISBURSEMENT PROCESS CONTAINS WEAKNESSES

The following exceptions were noted in a sample of 40 disbursements made by the Department:

- Fourteen items were not paid in a timely manner or in accordance with purchase terms;
- Four disbursements were not supported by the original invoice and one disbursement was not supported by any documentation;
- The receipt date for seven invoices was not indicated; therefore, timeliness of payment could not be determined;
- Two invoices were not cancelled when paid.

Understanding Risk and Mitigating Controls



State Auditor Finding:

INAPPROPRIATE TRAVEL REIMBURSEMENTS PAID

During our audit, we found two instances where travel costs were paid without proper approvals and supporting documentation and 12 instances where employees were paid excessive mileage reimbursements. Questionable charges totaled \$4,769.

Understanding Risk and Mitigating Controls



Balancing Risk and Control

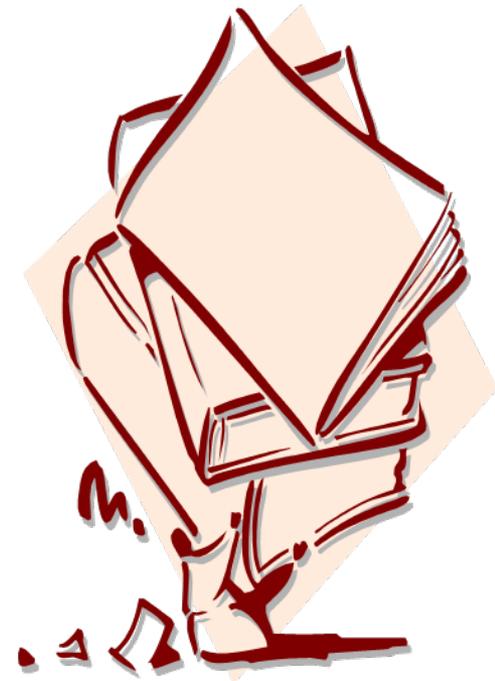
- Primary categories of risk are errors, omissions, delays and fraud.
- To achieve goals and objectives, management needs to effectively balance risks and controls.
- Therefore, control procedures need to be developed so that they decrease risk to a level where management can accept the exposure to that risk.
- By performing this balancing act, reasonable assurance can be attained.

Understanding Risk and Mitigating Controls



Control Activities – Approvals (Preventive)

- Written policies and procedures
- Limits to authority
- Supporting documentation
- Question unusual items
- No “rubber stamps”
- No blank signed forms



Understanding Risk and Mitigating Controls



Control Activities – Authorization (Preventive)

- Authorization is the delegation of authority; it may be general or specific.
 - General authorization are policies for the organization to follow.
 - Specific authorization relates to individual transactions; it requires the signature or electronic approval of a transaction by a person with approval authority.



Understanding Risk and Mitigating Controls



Control Activities – Segregation of Duties (Preventive and Detective)

No one person should...

- Initiate the transaction
- Approve the transaction
- Record the transaction
- Reconcile balances
- Handle assets
- Review reports



Understanding Risk and Mitigating Controls



Control Activities – Asset Security (Preventive and Detective)

- Security of physical assets
- Physical safeguards
- Periodic counts/physical inventories
- Perpetual records are maintained
- Compare counts to perpetual records
- Investigate/correct differences



Understanding Risk and Mitigating Controls



Control Activities – Reviews (Detective)

- Budget to actual comparison
- Current to prior period comparison
- Performance indicators – A/P days outstanding, discounts lost, etc.
- Follow-up on unexpected results or unusual items



Understanding Risk and Mitigating Controls



Control Activities – Reconciliations (Detective)

- A reconciliation is a comparison of different sets of data to one another, identifying and investigating differences, and taking corrective action, when necessary.
 - Reconciling the bank statements to the general ledger records (cash receipts and cash disbursement register).
 - Performing a three-way match which automatically compares the invoice to the approved PO and Goods Receipt Report.

Understanding Risk and Mitigating Controls



Balancing Risk and Control

To achieve a balance between risk and controls, internal controls should be:

- Proactive
- Value-added
- Cost-effective
- Address exposure to risk



Understanding Risk and Mitigating Controls



Accounts Payable and Expenditure Processes:

- Adding Vendor/Vendor Maintenance
- Processing Invoices
- Processing Employee Reimbursements
- Handling Special A/P Processes (includes year-end accruals, etc.)

Understanding Risk and Mitigating Controls



Identifying Process Procedures

- Adding Vendor/Vendor Maintenance
- Processing Invoices with a Purchase Order (PO)
- Processing Employee Reimbursements

Understanding Risk and Mitigating Controls



Process Procedures

Adding Vendor/Vendor Maintenance

- A request to add a vendor to the master file within the A/P system is received.
- Procurement performs a vendor verification.
- The new vendor's information is entered into the vendor master file system.

Understanding Risk and Mitigating Controls



What could go wrong?

Adding Vendor/Vendor Maintenance

- Multiple vendor errors due to multiple addresses or names
 - Business Machines/Business Parts & Machines
 - 103 Main Street/103-A Main Street
- Fictitious vendors
 - P.O. Box 1000
- Unauthorized vendors
 - Debarment List

<http://www.doa.state.nc.us/PandC/actions.asp>

<https://www.epls.gov/>

Understanding Risk and Mitigating Controls



Identifying Controls

Adding Vendor/Vendor Maintenance

- A request to add a vendor to the master file within the A/P system is received **by the Accountant.**
- Procurement performs a vendor verification **before approval is given to add the vendor to the master file.**
 - A search is performed on the master file to confirm that the vendor has not been setup under a different name or prefix.
 - The vendor is not listed on the Debarment List
 - Vendor invoice has an invoice number, phone number and street address on the statement.

Understanding Risk and Mitigating Controls



Identifying Controls (cont.)

Adding Vendor/Vendor Maintenance

- The new vendor's information is entered into the vendor master file **by the Accountant.**
- The updated vendor master file is reviewed and approved by the Accounting Manager.

Understanding Risk and Mitigating Controls



Process Procedures

Processing Invoices with a Purchase Order (PO)

- Invoice is received for services performed.
- A/P Clerk performs a batching process of the invoices into groups according to the type of invoice.
- Batched invoices are entered into the General Ledger.
- Checks or electronic funds transfers are prepared based on the payment amounts.
- Check register and checks are printed.
- Blank checks are in a filing cabinet.



Understanding Risk and Mitigating Controls



What could go wrong?

Processing Invoices

- Duplicate payments
 - Multiple invoice keying errors
 - Payment made from a copy of a invoice instead of the original
- Paid the incorrect amount
 - Unapplied credits
 - Discounts not taken

Understanding Risk and Mitigating Controls



Identifying Controls

Processing Invoices with a Purchase Order (PO)

- Invoice is received for services performed and date stamped by A/P Clerk.
- Only original invoices are paid.
- A/P Clerk checks for completeness and accuracy by comparing the items and quantities ordered per the approved PO to the invoice and the signed receiving report.
- A/P Clerk checks for any unapplied vendor credits or discounts.
- A/P Clerk resolves any variances and approves the invoices.

Understanding Risk and Mitigating Controls



Processing Invoices (cont.)

- A/P Clerk performs a batching process of the invoices into groups according to the type of invoice.
- To ensure that the total of the batched invoices are accurate the batch total is compared to a calculator tape of all the invoices.
- Budget Director reviews the batches to ensure purchasing rules have been followed and funds are available.
- The Controller reviews the batches for accuracy, completeness and signs for final approval of payment.
- Batched invoices are entered into the General Ledger (NCAS) which automatically matches them to the approved PO and Goods Receipt Report (Three-Way Match) by the A/P Clerk.

Understanding Risk and Mitigating Controls



Processing Invoices (cont.)

- Any discrepancies are investigated and reprocessed by the A/P Clerk.
- Checks or electronic funds transfers are prepared based on the payment amounts.
- Checks are printed and reconciled to the Check register by the Accounting Technician.
- Blank checks are secured in a locked filing cabinet.

Understanding Risk and Mitigating Controls



Process Procedures

Processing Employee Reimbursements

- Employee requests Travel Advance.
- Employee submits Travel Advance and Authorization Form with supporting documentation (receipts, airline tickets, parking tickets, etc.).
- A/P Clerk processes the Travel Advance and Authorization Form.

Understanding Risk and Mitigating Controls



What could go wrong?

Processing Employee Reimbursements

- Unauthorized Travel
- Ineligible Charges
- Fraudulent Charges
- Errors

Understanding Risk and Mitigating Controls



Identifying Controls

Processing Employee Reimbursements

- Employee requests Travel Advance **30 days prior to travel**
- Employee submits Travel Advance and Authorization Form with supporting documentation (receipts, airline tickets, parking tickets, etc.) **to the Budget Director.**
- **Budget Director verifies that the supporting document adheres to the Travel Policies and Procedures.**

Understanding Risk and Mitigating Controls



Processing Employee Reimbursements (cont.)

- A/P Clerk processes the Travel Advance and Authorization Form by reviewing the supporting documentation and verifying the following:
 - Purpose of the trip
 - Departure and return date and time
 - Reasonable and allowable expenses (meals, parking tickets, etc.)
 - Excess lodging preapproved
 - Original receipts and no duplication
 - Employee signature and management's approval



Understanding Risk and Mitigating Controls



Summary

A/P and Expenditure Processes

- Identified the Procedures
- Identified the Risk
- Identified the Controls

To achieve a balance between risk and the controls, internal controls must be linked to the risk.



Understanding Risk and Mitigating Controls



Polling Questions 7 - 10



Key Take-Aways



Key Take-Aways

What is a control?

A control is any action taken to mitigate or manage risk and increase the probability that the organization's process will achieve its goal or objectives.

A control is a series of checks and balances that help management detect and prevent errors.

Controls maybe a mix of preventive and detective and a combination of manual and automated.



Key Take-Aways

Controls are everyone's responsibility.



Key Take-Aways

What could go wrong (Risk)?

- Inaccurate Financial Reporting
- Large Fines and Settlements
- Loss of Assets
- Noncompliance with Regulations
- Public Scandals
- Poor Business Decisions
- State Auditor Findings





Key Take-Aways

Fraud Triangle





Key Take-Aways

Recommendations

Outstanding Credit Errors

- Periodically review statements of high dollar vendors.
- Track returned items to ensure credit memos are issued.

Vendor Errors

- Review vendor master file periodically.
- Verify that the vendor name and remit to address in the A/P system match the name and address on the invoice.



Key Take-Aways

Recommendations (cont.)

Multiple Invoice Copy Errors:

- Pay only from original invoices.
- If faxed copies are unclear, request another copy.
 - Do Not Guess
- Search by invoice number and amount to determine if already paid.



Key Take-Aways

Recommendations (cont.)

Invoice Number Errors:

- Be consistent – Set rules for input.
- Never alter the invoice number to force it into the system.

Miscellaneous Errors:

- Be aware of vendors that are paid by P-card.
- Be aware of dates on invoice and select only the invoice date. Verify the correct date.
- Be aware of discount rules.



Key Take-Aways

A/P and Expenditure Processes

- Identified the Procedures
- Identified the Risk
- Identified the Controls





Key Take-Aways

Balancing Risk and Control

To achieve a balance between risk and controls, internal controls should be:

- Proactive
- Value-added
- Cost-effective
- Address exposure to risk





Questions And Answers



For questions or additional information,
you may contact Risk Mitigation
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