

# Introduction to Internal Controls

- Internal Controls Defined
- Risk Assessment
- Internal Controls Activities over Vendor Payments and Payroll
- Segregation of Duties

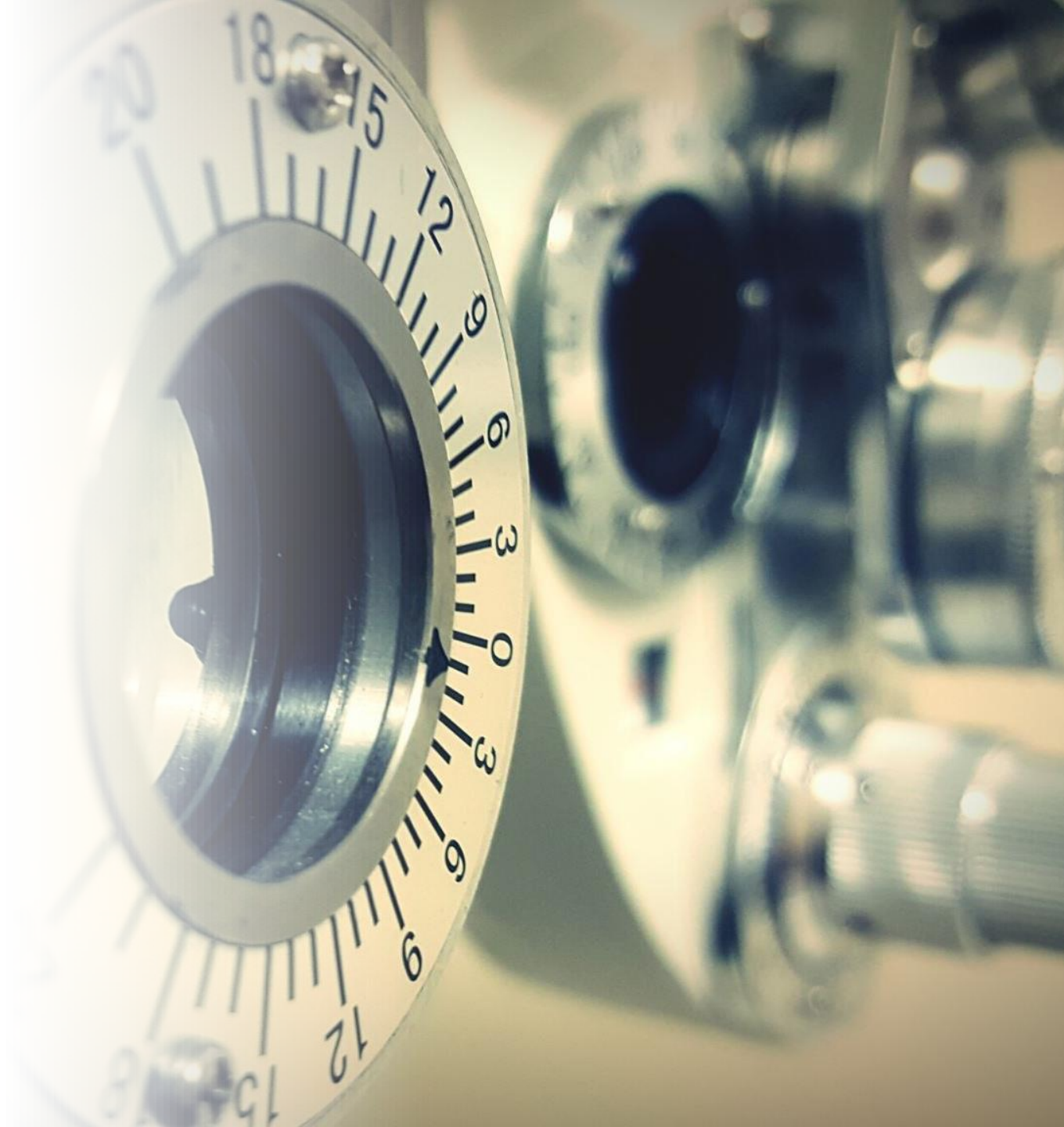
# Why Do We Need Internal Controls?

Weak or Insufficient Internal controls may result in:

- Avoid Adverse Audit findings
- Failure to Prevent or Discover Theft
- Failure to Detect Shortages
- Operational Inefficiency
- Loss of Public Confidence



Internal  
Control  
Defined



# DEFINITION:

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***Internal control*** is a process, affected by a school district's board of education, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

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



# DEFINITION:

*Internal control* is a mindset, an awareness that it is your responsibility to 'mind the mint.'



# DEFINITION:

*Internal control* is an attitude needed to protect the district assets and the integrity of the financial operations.

## Get Big and Bossy!



# Internal Controls:

- Other key concepts:
  - Internal controls should benefit rather than hinder the school district operation
  - Will be unique based on the school district's operating environment
  - Controls need to be cost effective



# School District Audited Financial Statements

## **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, **and for the design, implementation, and maintenance of internal control relevant to the preparation** and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.



# School District Audited Financial Statements

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Reilly, Penner & Benton LLP

October 18, 2023  
Milwaukee, Wisconsin

# Internal Control: Five Interrelated Components



# Internal Control: Five Interrelated Components

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## #1: Control Environment

The control environment **sets the tone** of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.



# Get Big and Bossy!

# Internal Control: Five Interrelated Components

## # 2: Risk Assessment

Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.



[Marshfield Fraud](https://www.wsaw.com/content/news/Marshfield-Fraud)

<https://www.wsaw.com/content/news/Marshfield-School-District-falls-victim-to-660000-scam-511245051.html>

## MARSHFIELD FRAUD EXAMPLE

WHAT WENT WRONG?

HOW COULD THIS HAVE  
BEEN PREVENTED?

# Internal Control:

Five Interrelated Components



## #3: Control Activities

Control activities are the policies and **procedures** that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives.

Control activities occur throughout the organization, at all levels and in all functions.

They include a range of activities as diverse as **approvals, authorizations, verifications, reconciliations, reviews of operating performance, monitoring**, and security of assets and segregation of duties.



# OCONOMOWOC AREA SCHOOL DISTRICT

EMPOWERING A COMMUNITY OF LEARNERS AND LEADERS

## 2023-24 Budget Proposal School Board Executive Report May 3, 2023



Meadow View Elementary 2<sup>nd</sup> graders held a 'Caps for a Cure' fundraiser to honor their former classmate, Brayleigh King. Students and staff could donate funds to wear a hat for the day. Their efforts raised over \$5000.

*Empowering a community of learners and leaders.*

**District Profile:** Oconomowoc Area School District (OASD) serves approximately 5,000 students in pre-kindergarten through grade twelve. OASD covers 135 square miles in Waukesha, Dodge and Jefferson counties. The District operates five elementary schools, two intermediate schools, and one high school, as well as offering the Oconomowoc Virtual Learning Community (OVLC) for online instruction.

*Awesome  
Reporting,  
Transparent,  
Thorough,  
Accurate*

# Internal Control: Five Interrelated Components

## #4: Information and Communication

Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities.

What's  
your skill  
level?





# Internal Control: Five Interrelated Components

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## #5: Monitoring

Internal control systems need to be monitored – a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Ongoing monitoring occurs in the course of operations.

## A Municipal Water Bill Example

MADISON METROPOLITAN  
SCHOOL DISTRICT



**Fall Approved  
Budget  
2023-2024**



# Madison Metropolitan SD Water Bill Example



Regular monthly billing from water utility for Wilson School, a medium size elementary school, was approximately \$150 for a typical month.

One month, the city water utility correctly billed the district for \$150 for Wilson School.

The MMSD business office processed the bill and paid **\$150,000!** A clerical mistake, not attempted fraud.

However, the mistake went undetected through all internal controls. It was caught *after the fact* via routine account analysis (i.e. an eyeball review of a General Fund detailed expenditure report sorted by Fund-Location-Object), The money was recovered.



# Madison Water Bill Example



IC activities that should have prevented this mistake:

- ✓ Compare Batch Total
- ✓ 2<sup>nd</sup> Person Review
- ✓ Exceeds budget
- ✓ Other?

[No Title] RE THE SPECIFIC ACTIVITIES THAT MAKE UP  
INTERNAL CONTROL? WHAT DOES  
INTERNAL CONTROL ACTUALLY LOOK LIKE?

1. Approvals
2. Verifications
3. Reconciliations
4. Physical controls
5. Segregation of duties
6. Review and analysis

# Internal Control Activity: Reconciling

“If you’re too busy to reconcile, then you’re too busy.”



# Who is Responsible for Internal Controls?

Auditors can *assist* management in meeting its control responsibilities



Management is *primarily* responsible



The school board is *ultimately* responsible

# Internal Control School Business Office Examples

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- Awareness and mindset regarding Internal Control
- Adequate business office staffing
- Segregation of duties and/or compensating controls in place
- Invest in ongoing training
- Invest in high quality systems
- Solid business office procedures and processes
- Monthly cash reconciliation
- Careful monitoring and monthly YTD reviews
- Careful review of the vendor file, annual clean-up
- Careful review of the payroll file and ETF deposit file



# Internal Control School Business Office Examples

- No audit findings for material weakness
- DPI reports are timely
- Accurate budget-to-actual results at end of year
- Minimal irregular payrolls
- Minimal irregular AP batches
- Monthly board meeting report outs
- Multi-step verification to gain access for login
- Control over cash, with regular deposits and records



# Internal Controls – Assessing Your Risk Exposures





# Risk Assessment

Each school district is responsible for reviewing their business practices and processes to determine where risks exist and where and how controls can be established to mitigate them.

## Accounts Payable Risk Assessment:

The payment of vendors supplying items ordered through the traditional purchase order process has the least risk.

- Lots of verifications and approvals are in place in this process.



## Accounts Payable:

### High Interest Areas:

- P-card transactions
- Electronic Funds Transfer
- Employee travel and expense reimbursements
- Bogus contractual services
- Fake Invoices, fake vendors
- Clerical Mistakes

# Internal Control Activities

- Essential when disbursing district funds
- “Nothing is Routine”



# WHAT ARE THE SPECIFIC ACTIVITIES THAT MAKE UP AN INTERNAL CONTROL? WHAT DOES AN INTERNAL CONTROL ACTUALLY LOOK LIKE?

1. Approvals
2. Verifications
3. Reconciliations
4. Physical controls
5. Segregation of duties
6. Review and analysis

# APPROVALS AND VERIFICATIONS

Approvals and verifications occur in many stages of the purchase-to-pay process:

- Setting Up New Vendors (Be Careful!)
- Purchase Order Stage
- Good and services received
- Invoice processing
- Check Issued

# Approve and Verify via 3-Point Match


Accounts Payable verification check list:

✓ Verify that 3-way match has been completed

1. Purchase Order
2. Receiving Documents
3. Invoice

✓ Verify that the invoice is not a duplicate.

Enter exact vendor invoice number, amount and date into your system.



The Classic  
Formulation

## Approval and Verification – Purchase Order Stage:

User requests a purchase through a purchase requisition:

Budget manager *approves* purchase requisition (this may be a principal, director of facilities, athletic director, etc.)

Business Office *verifies and approves* purchase order and transmits to the vendor.



# Approve and Verify Before Sending to Vendor

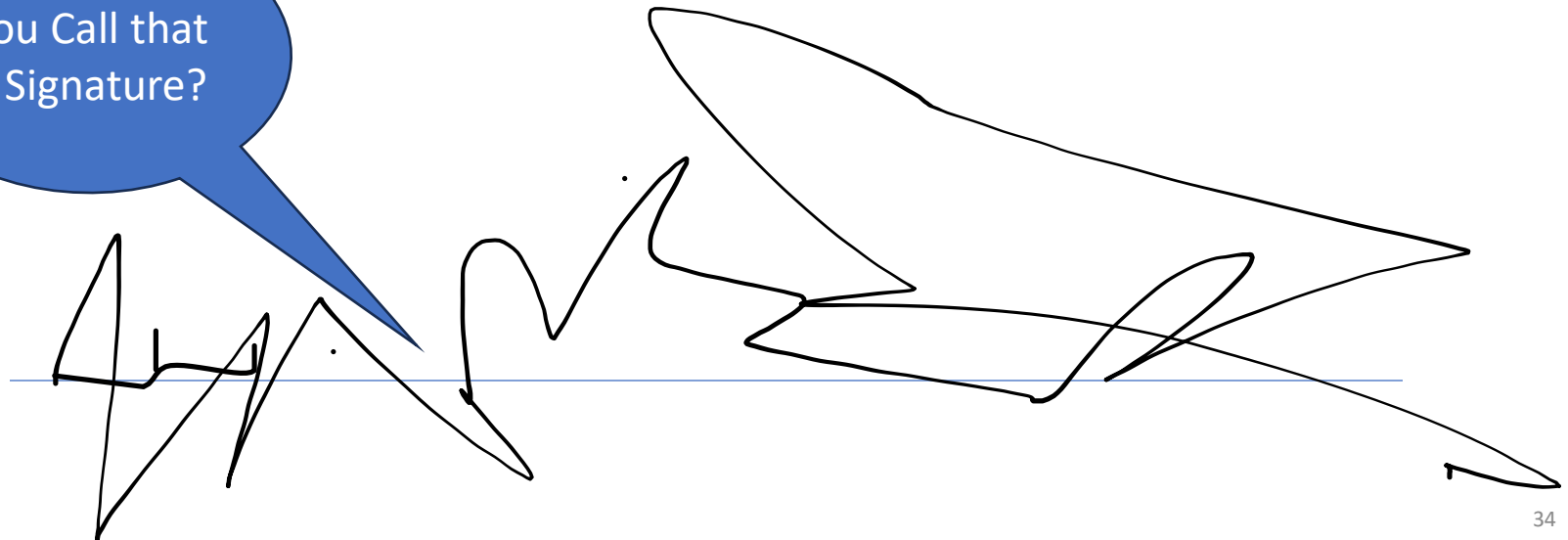
Business Office *verifies and approves* purchase orders.

- ✓ Appropriate budget manager has approved
- ✓ Validity of the order or contract
- ✓ Proper bidding procedures are used (if required)
- ✓ Proper sourcing is used (if required)
- ✓ Federal purchasing requirements are met (if required)
- ✓ Quantity and Units of Measure make sense
- ✓ Validity of the vendor is confirmed
- ✓ Order fits within the budget allocation
- ✓ Correct WUFAR coding

# Approve and Verify - Receiving

- User *verifies* receipt of the goods or services, confirms that goods ordered equal goods received, informs business office. (Nag, nag, nag).
- Business office (Accounts Payable) *verifies that both the purchase order and receiving documents match vendor invoice.*

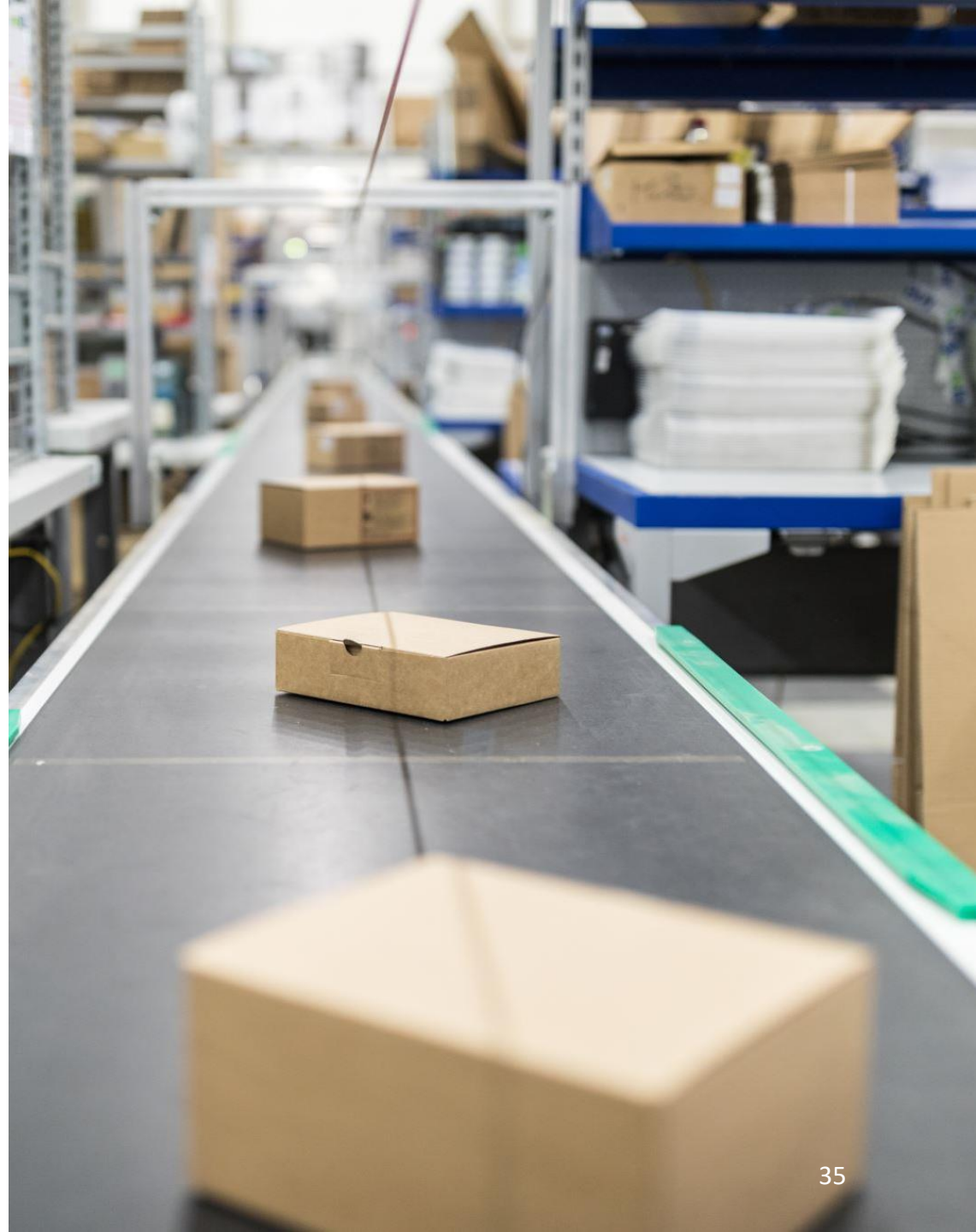
You Call that  
a Signature?



# Segregation of Duties

## Receipt of Goods

- Best Practice:
  - Use on-line receiving / scan receiving report
  - Require approval of itemized contractual service invoices



# Segregation of Duties

## Receipt of Goods

- Basic Rule: Accounts Payable staff should never pay an invoice without verification of receipt of goods or services from another individual.

### *Why?*

- There needs to be a segregation of duties between who is paying and who is approving payment.
- Protects the district from fraudulent payments.

# Approve and Verify - Invoices

- Vendor invoices are the *source document* for all accounts payable transactions
- This source document is a critical internal control!
- Beware of Fake/Fraudulent Invoices!

[Company Name]  
[Company Slogan]

[3 Resp. Address]  
[City, ST, ZIP]  
Phone: [000-000-0000]  
Fax: [000-000-0000]

**INVOICE**

DATE: 1/21/02/2010  
INVOICE #: [123456]  
Customer ID: [123]

**BILL TO**  
[Name]  
[Company Name]  
[3 Resp. Address]  
[City, ST, ZIP]  
[Phone]

DESCRIPTION	TAXED	AMOUNT
[Service Fee]		200.00
[Labor: 5 hours at \$75/hr]	X	375.00
[Part]		345.00

Subtotal \$ 360.00  
Taxable \$ 345.00  
Tax rate 6.25%  
Tax due \$ 21.56  
Other \$ -  
**TOTAL Due \$ 371.56**

**OTHER COMMENTS**  
1. Total payment due in 30 days  
2. Please include the invoice number on your check

Make all checks payable to  
[Your Company Name]

If you have any questions about this invoice, please contact  
[Name, Phone # Email]

**Thank You For Your Business!**

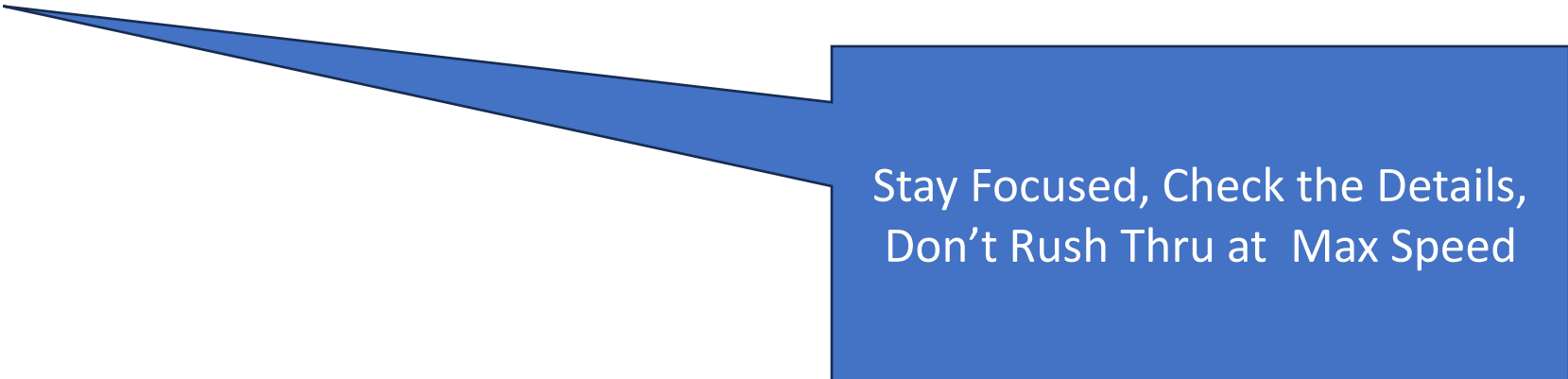
Invoice Template by Vertex42.com © 2010 Vertex42 LLC

## Approve and Verify – Invoice

- ✓ Verify the total invoice amount is correct
- ✓ Verify shipping and handling have been applied correctly per the purchase order
- ✓ **Is WI sales tax appropriate?**
- ✓ Verify all charges are current and the invoices does not include a brought forward amount.

# Approve and Verify – Invoice

- ✓ Verify the purchase order encumbrance is sufficient to cover the current invoice, or is within the district's variance tolerance.
- ✓ Verify that the invoice pricing matches any quote or bid pertaining to the purchase order.



Stay Focused, Check the Details,  
Don't Rush Thru at Max Speed

# Approve and Verify – Invoice

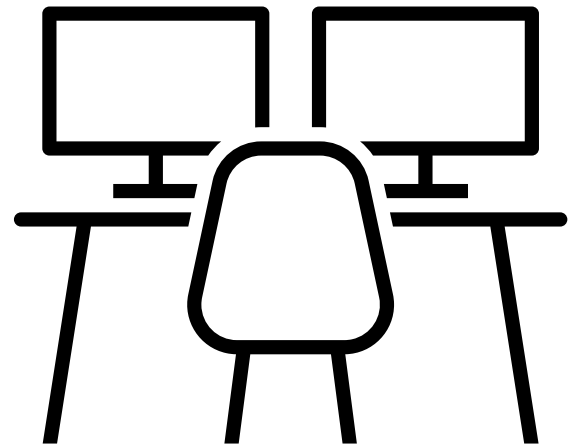
Verify the WUFAR account code is correct:

- ✓ Per the district's chart of accounts (WUFAR!!)
- ✓ Per the department responsibility – WUFAR coding has to relate to the user
- ✓ A well-organized chart of accounts, using correct WUFAR coding is an **ESSENTIAL INTERNAL CONTROL!**



## Approvals and Verification – Invoices

Cross check accounts payable batches - two sets of eyes are better than one!



# Approve and Verify – Invoice

- ✓ Verify the correct fiscal year for processing (a major headache!)
- ✓ When do you suspend purchasing for year-end cutoff purposes? No one likes accruals.
- ✓ When and how do you initiate purchasing for the next fiscal year?

# Internal Controls - Reconciliation

- ✓ Reconciling is another key internal control activity!  
Reconciling in accounts payable includes:
  - ✓ Batch total reconciliation
  - ✓ Vendor statements reconciliation
  - ✓ Total checks issued reconciliation

## Internal Control Activity - Reconcile Check Totals

- ✓ Reconciling the accounts payable payment input to the total of the check run provides that everything entered has been paid and there are no payments being processed that were not intended to be included.
- ✓ Reconcile the batches processed and posted to the total of the check register.
- ✓ Document and initial your reconciliation.

# Reconcile Vendor Statements



Vendor statements should be reconciled to district payment records. **Don't just throw them away!**

- ✓ Start with the vendor's balance outstanding
- ✓ Check this against any district payments in transit
- ✓ Check for past due and outstanding invoices

# Reconcile Vendor Statements

## Investigate outstanding invoices:

- ✓ Are there invoices on the statement that are in my pending file waiting receipt verification?
- ✓ Are there invoices on the statement that I cannot match to a purchase order?
- ✓ Are there invoices on the statement that I don't have?
- ✓ Are there any credits that need to be taken?

# Reconcile Vendor Statements

- ✓ Take action to resolve reconciling items: *E-mail (or actually call) the vendor!*
- ✓ Make notes and initial review of statement
- ✓ Supervisor should be informed that vendor statements have been reconciled and pending items addressed



## Internal Control Activity – Reconcile the Batch Total

- ✓ A useful process for assuring the accuracy of invoice input, is to reconcile batch totals to vendor invoice totals
- ✓ Create a batch or grouping of invoices ready for payment entry
- ✓ Run a manually tape / spreadsheet total on all invoices
- ✓ Input the invoices into a batch
- ✓ Reconcile your tape total to the batch total



# p-Card

No Costs, No Fees, No Charges  
& You Get a Rebate!



Created to maximize procurement benefits for schools and help Associations.

## What makes a p-Card unique?



### Association Sponsored

The pCard provides rebates to schools that could not be obtained separately.



### Spend Dynamics

24/7 support  
to manage your pCard Program.



### Supplier Approved

Suppliers receive payment for goods and services within 48 hours.



## About Your Filing System....

- Are all documents scanned and organized within Skyward? (Best)
- Do you maintain a paper set of vendor files by Year and Vendor? (Classic but not best)

## High Risk Area – Contracted Personal Services (OBJ 310)

- One of the highest areas of risk is in the purchase of ***contracted services***. Why?
  - Managers often rubber stamp approvals to pay
  - Not all districts issue purchase orders for personal services contracts, thereby reducing approvals and verifications
  - Vendor invoices may not provide enough detail for managers to verify delivery of services
  - No physical goods to verify against an invoice

*EXAMPLE: INVOICE FROM DR. SO-AND-SO CONSULTANT, NO PAPERWORK, ETC*

## High Risk Area – Contracted Personal Services (OBJ 310)

Mitigate risk in accounts payable by:

- ✓ Requiring all personal services contracts be approved and verified through the purchase order process / before the fact!
- ✓ Requiring all personal service vendors to itemize invoices in detail
- ✓ Reminding program managers of their responsibility to verify performance of services via signature
- ✓ Verifying hourly rates and services match the contract.

# Internal Control Activity: Check Approval By Designated Person and Board:

- All Vendor Payments must be approved by the district's designated responsible person (who is accountable?)
- Process will vary from district-to-district depending on size, staff, and ability to segregate duties.
- Vendor Payments must be approved by the School Board (Monthly Check Register).



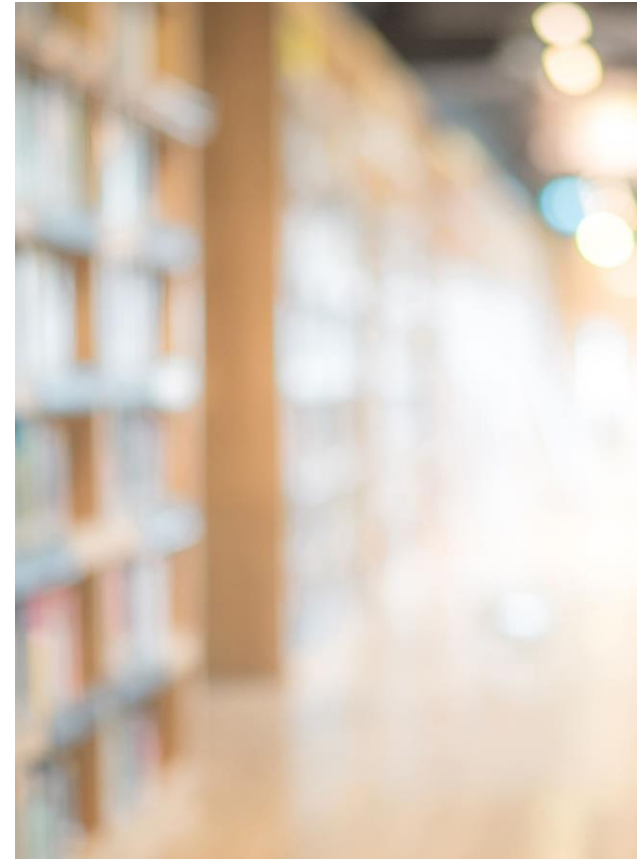
# Monthly Board Meeting

## Standard Financial Reporting

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**120.16 School district treasurer; duties.** The school district treasurer of a common or union high school district shall: (2) Apply for, receive and sue for all money appropriated to or collected for the school district and disburse the same in accordance with this subsection and s. 66.0607.

**Disbursements from the school district treasury** shall be made by the school district treasurer upon the written order of the school district clerk after proper vouchers have been filed with the school district clerk. Such disbursements shall be by order check, share draft or other draft and no order check, share draft or other draft is valid nor may it be released to the payee unless signed by the school district clerk and school district treasurer and countersigned by the school district president. In a school district having 5 or more school board members, another school board member may countersign such order checks, share draft or other draft in lieu of the school district president. No order check, share draft or other draft may be drawn for the payment of which money has not been appropriated according to law. The school district treasurer may receive money raised in extracurricular activities. The school board may by resolution authorize the use of facsimile signatures as provided in s. 66.0607



# Regular Monthly Board Meeting – Standard Financial Reporting

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## **Approve Disbursements**

Typical Check Register

Other Types of Disbursements (EFT)

## **YTD Financial Report**

Budget-to-Actual Activity by Fund

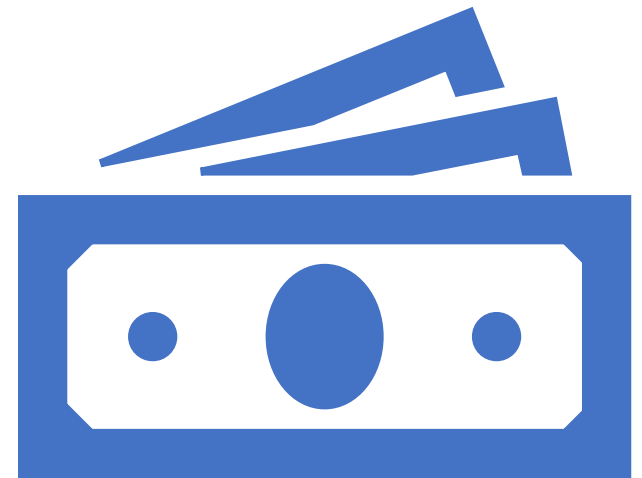
Balance Sheet?

## **Miscellaneous Other Reporting (Examples)**

Large Items Report

Bank Recs

Vendor Activity Report (Ranked by YTD Amount)



WASBO  
University:  
Home of  
the Debits!





INTERNAL CONTROLS –  
ACCOUNTS PAYABLE  
ACTIVITY prestigious

# Segregation of Duties

# Segregation of Duties

Segregation of duties means that no single individual should control a process from beginning to end.

Example:

- New vendor is entered into system
- Purchase order is issued to vendor
- Receipt of goods and services is approved
- Payment is entered from invoice into system
- Check or EFT is processed to the vendor

# Segregation of Duties

What if you work in a small district where it's simply not possible to segregate duties between two or more employees? You'll need compensating controls! Example:

Develop a *monitoring program* such as:

- ✓ Board monthly review of all vendor payments, or
- ✓ Review highest paid vendors by supt/board treasurer.

# Segregation of Duties

## Adding a New Vendor

Basic Rule: Accounts payable staff should not add new vendors

There should be a segregation of duties between who is making payments and who is adding vendors

Protects the district against phantom vendors

# Segregation of Duties

## Adding a New Vendor

Phantom or ghost vendors are vendors who do not exist. They are made up in order to commit disbursement fraud.

- Add a phantom vendor
- Create a fake invoice
- Pay the fake vendor from the fake invoice
- Mail check to address that matches employee's, or it's a 'pick up check' in business office scenario
- Cash the phantom vendor check

# Segregation of Duties

## Adding a New Vendor

### Compensating controls over new vendors:

- ✓ Have a process to request new vendors
- ✓ Require W-9 or substitute W-9 for all new vendors
  - Verifies that the vendor is real
- ✓ Management review of vendor data base: PO boxes, duplicate addresses (employee and vendor), no telephone number
  - ✓ Is an employee directing ghost vendor payments to their personal address?

# Segregation of Duties

## Purchase Order Approval

- Basic Rule: Accounts Payable staff should not also approve and print purchase orders
- There needs to be a segregation of duties between who is purchasing and who is paying
- Protects the district from fraudulent payments

# Segregation of Duties

## Purchase Order Approval

### Internal Control Best Practice:

- Use on-line purchase requisitions including on-line approvals by budget managers
- Have the bookkeeper or business manager review and approve (release) all purchase orders. Include specific review of all personal services contracts



# Segregation of Duties

## Receipt of Goods

Basic Rule: Accounts Payable staff responsible for entering invoices for payment should not issue checks.

Why?

There needs to be a segregation of duties between payment entry and check issue to protect the district from fraudulent payments.

# Compensating Controls:

Segregation of Duties –

Invoice Pay Function & Disbursement of Checks:

- Check registers are reviewed by the district's responsible person
- Checks are sorted and mailed by someone other than an accounts payable
- Checks issued are posted to the general ledger by a supervisor/business manager
- Checks outstanding in general ledger is reconciled by someone other than accounts payable

## Segregation of Duties – Reconciling

Basic Rule – Posting and reconciling of **accounts payable** should be done by someone other than the individual entering payments into the system.

Why?

Reconciling by another individual may reveal errors and fraud in the payment process.