

Internal Controls

Workflow and Why oh Why oh Why?



Agenda for Today:

- Definition
- Components
- Tone at the Top
- Consequences of Ignoring Internal Control
- Scenarios - where did the breakdown occur?
- Takeaways

Definition

Internal control is a process designed to provide reasonable (not absolute) assurances regarding:

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

Process involves school board, management, and other personnel

Internal Control Components

- Control Environment
- Risk Assessments
- Control Activities - Proactive
- Information and Communication
- Monitoring - Detective

Control Environment

- School Board
- Committees
- Policies
- Integrity and ethical values
- Management philosophy and operating style
- Authority and responsibility

Control Environment

- Organizational structure
 - Do individuals recognize they will be held accountable for their actions?
 - Does management believe and communicate that internal controls are important?
 - Are employees aware of their responsibilities?

Risk Assessments

- Identification of risks in your district
- When do you identify risk in the district?
 - New personnel
 - New projects
 - Organizational restructuring
 - Regulatory changes
 - Rapid growth
 - Technology changes

Control Activities - Proactive

- Preventative controls that attempt to prevent or deter unfavorable acts from occurring
 - Segregation of duties
 - Authorization
 - Safeguarding
 - Asset accountability

Information and Communication

- Software security
- Financial reporting
 - Reliable information to those who need it
 - Identify and record valid transactions
 - Detailed transaction descriptions
 - Record transactions in proper time period
 - Keep journal entry documentation

Monitoring - Detective

- Analytical reviews
- Analytical testing
- Self assess internal controls
- Internal audit on internal controls

Questions To Ask

- What can go wrong?
- Are we vulnerable?
- What assets need to be protected?
- What are the internal and external risk factors?

Tone at the Top

- Policies
 - School board Code of Conduct
 - Educator Code of Ethics
 - The educator shall not knowingly misappropriate, divert, or use monies, personnel, property, or equipment committed to his or her charge for personal gain or advantage
 - The educator shall not submit for fraudulent requests for reimbursement, expenses, or pay

Tone at the Top

- Leadership - Administration
 - Walk the talk
 - Actions speak louder than words
 - Procedures / practices should reflect board policies
 - Communicate and offer training

Consequences of Ignoring Internal Control

- Fraud
- Theft
- Misuse of assets
- Poor decision making
- Possible penalties of non-compliance
- Expenses go up
- Revenues go down
- Loss of trust
- No referendum

ESSENTIALS OF RISK MANAGEMENT:

- 1. DON'T DO ANYTHING WRONG TODAY.**
- 2. DON'T DO ANYTHING WRONG TOMORROW.**
- 3. REPEAT.**



Complex  Discovery

GLASBERGEN

WE HIGHLIGHTED THE FAILED
CONTROLS RED AND THE
IRRELEVANT ONES YELLOW

WHAT ABOUT
ALL THESE
ORANGE ONES?





“Do you have the password for the coke-machine?”

Scenario #1 – 2022 Indiana

- Bookkeeper for a school district federally charged for writing herself checks
- Almost \$1 million dollars over more than 5 years
- Personal expenses and gambling
- Bookkeeper in food services
- Maintained financial records and issued checks that were approved by her supervisor
- Falsified school records making it appear the payments were to a school vendor
- Faces up to 20 years in a federal prison

Scenario #2 – 2021 Michigan

- Administrator of a school district created false invoices
- Totaling approximately \$945,000
- Business manager noticed irregularities while reviewing the district's finances

Scenario #3 – 2022 Virginia

- 35,000 laptops with a value of over \$2 million stolen
- Box truck picked up the laptops from the district's warehouse on numerous occasions
- Never showed any paperwork
- 3 people charged with embezzlement

Scenario #4 – 2022 Oklahoma

- Administrative assistant accused of embezzling over \$200,000
- Worked for the district over 10 years
- Responsibilities were collecting funds from various cafeteria sites, preparing the funds for deposit, and depositing the funds at the bank

Scenario #5 – 2021 Kentucky

- Finance director embezzled \$1.5 million spanning numerous years dating to at least 2011
- Create fake invoice from existing district vendor
- Doctor the check to change the name and address, sometimes to her own
- Credit Union became suspicious and contacted the FBI
- Annual audit does not look for fraud; sample checks are selected to view corresponding invoice; probably would never have been caught through an audit

Scenario #6 – 2021 West Virginia

- School financial secretary accused of embezzling funds from athletic events
- Stole in excess of \$1,000
- School official noticed a shortfall from ticket sales and concessions during basketball season

Scenario #7 – 2019 California

- President of school board association and from school board member of a local district
- Stole in excess of \$40,000
- In his president role at the association, stole dues from district
- In his school board member role, used district credit card for personal purchases

Scenario #8 – 2021 New Mexico

- High school secretary embezzled over \$130,000 over 4 years
- Stole student fees, used district credit card for personal purchases, and stole donations
- During forensic audit, it was discovered that an additional \$140,000 was stolen but could not be proved due to evidence being destroyed; wiped hard drives and shredded receipt books

Scenario #8 – 2021 New Mexico cont.

- Numerous staff members reported suspicions of mishandled funds
- Special audit faulted the district for lax of oversight and substandard account procedures
- Superintendent retired, finance director and business manager left, high school principal and assistant principal were put on leave
- High school secretary never faced charges and was allowed to repay the stolen money as a loan

Takeaways

- Review the components of internal control and ask these questions:
 - What can go wrong?
 - Are we vulnerable?
 - What assets need to be protected?
 - What are the internal and external risk factors?
- Tone at the top
 - Review policies
 - Does administration “walk the talk”?
- Review procedures annually – conduct an internal audit
- Offer training if necessary

Questions



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