State Board of Accounts

Internal Control

Case Studies
Internal control is a process executed by officials and employees that is designed to provide reasonable assurance that the objectives of the political subdivision will be achieved.
Each of the five components of internal control is necessary to form a complete internal control process:

- Control Environment,
- Risk Assessment,
- Control Activities
- Information and Communication,
- Monitoring Activities.

• If any of the five components is missing, true internal control is not achieved.
Case Study: SBOA Reports
Banking Transactions

Cash Back from Deposits $25,565
Checks Made Out to Cash $35,478
Blank Money Orders $39,353
ATM Withdrawals $23,081
What steps can you take to provide reasonable assurance that all banking transactions are for lawful purposes?
Internal Controls
Banking Transactions

Control Environment
Risk Assessment
Control Activities
Information and Communication
Monitoring Activities
Case Study: SBOA Reports
Payroll Transactions

- Additional Checks Issued: $25,539
- Increase in Direct Deposit Amount: $7,489
- Payments to Non-employee: $22,606
- Additional Direct Deposits: $1,489
- Overpayment: $1,760
Payroll Overpayment

$369,055
# Case Study: SBOA Report
## Payroll Transactions

<table>
<thead>
<tr>
<th>Payroll Week Ending</th>
<th>Overtime Hours per Time Card</th>
<th>Actually Paid</th>
<th>Overpaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/29/07</td>
<td>5.95</td>
<td>15.95</td>
<td>10.00</td>
</tr>
<tr>
<td>9/30/07</td>
<td>0.38</td>
<td>10.38</td>
<td>10.00</td>
</tr>
<tr>
<td>11/25/07</td>
<td>-</td>
<td>46.00</td>
<td>46.00</td>
</tr>
<tr>
<td>3/23/08</td>
<td>1.50</td>
<td>21.50</td>
<td>20.00</td>
</tr>
<tr>
<td>8/03/08</td>
<td>-</td>
<td>48.50</td>
<td>48.50</td>
</tr>
<tr>
<td>9/07/08</td>
<td>1.00</td>
<td>47.50</td>
<td>46.50</td>
</tr>
</tbody>
</table>

Total Overpayment = $17,995.24
What Internal Controls are necessary to detect or prevent these types of payroll transactions?

* Overpayment of authorized amount

* Duplicate payments

* Extra payments

* Payments to non-employee
Internal Controls
Payroll Transactions

Control Environment

Risk Assessment

Control Activities

Information and Communication

Monitoring Activities
Case Study: SBOA Reports
Receipts Not Deposited

- Town Court Bond Collections: $310,325
- Utility Collections: $47,057
- Park Receipts: $27,291
- Town Court Receipts: $37,052
- Town Fire Department: $42,993
- Meter Deposits: $3,300
Receipts Not Deposited

$230,627

As stated in the prior five reports,

“the Town had not established any segregation of duties for the Clerk-Treasurer’s bookkeeping process.”
Case Study: SBOA Report
Receipts Not Deposited

Receipts Not Deposited : $230,627

The Bookkeeper -

• wrote receipts,
• posted all items to the ledger,
• made all bank deposits,
• controlled all unused checks, and
• reconciled all of the bank accounts
According to the SBOA report,

...”had the Bookkeeper’s duties been segregated among other employees, and had her duties been reviewed, the shortages shown in this report could have been prevented or detected on a more timely basis.”
“Customer payments were **missing** on 74% of the days that payments were collected...”

$371,807

The Deputy Clerk-Treasurer **bypassed** the internal controls in place...

The Clerk Treasurer “**was responsible** for supervising the Deputy Clerk Treasurer and the operations of the utility office.”
What Internal Controls could be designed to provide reasonable assurance that all receipts are deposited?
Internal Controls
Receipt Process

Control Environment
Risk Assessment
Control Activities
Information and Communication
Monitoring Activities
Case Study: SBOA Reports
Credit Card Purchases

- Personal Purchases: $10,644
- Personal Purchases: $19,758
- Personal Purchases: $7,356
- Personal Purchases: $23,634
- Personal Purchases: $3,883
Case Study: SBOA Report
Credit Card Purchases

Personal Credit Card Purchases

$346,156
Case Study: SBOA Report
Credit Card Purchases

- Alcohol
- Books
- Magazines
- Meat
- Laundry Detergent
- Shrimp
- Gift Cards
- Greeting Cards
- Vitamins
- Aspirin

- Toiletries
- Trash bags
- Toilet paper
- Milk
- Eggs
- Flowers
- Whole frozen turkey
- Hearing aid batteries
- Light bulbs
- Diet Sprite
Total Misappropriated: $11,376
Case Study: SBOA Report
Credit Card Purchases

What controls could be established to provide reasonable assurance that all credit card purchases are for lawful purposes?
Internal Controls
Credit Card Purchases

Control Environment

Risk Assessment

Control Activities

Information and Communication

Monitoring Activities
Case Study: SBOA Reports
Claims Process

- Lacking Proper Documentation: $14,846
- Payments to Spouse: $26,780
- Fictitious Vendor: $4,492
- False Claim Documentation: $5,751
- False Payee: $2,613
<table>
<thead>
<tr>
<th>Dates Traveled</th>
<th>Locations Traveled To</th>
<th>Miles Traveled</th>
<th>Amount Reimbursed</th>
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<tbody>
<tr>
<td>7/26/08 - 7/27/08</td>
<td>Biloxi, MS &amp; Return</td>
<td>1,720</td>
<td>$ 1,852.20</td>
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<td>8/03/08 - 8/04/08</td>
<td>Eglin, FL &amp; Return</td>
<td>1,802</td>
<td>1,787.10</td>
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<td>8/04/08 - 8/07/08</td>
<td>Florida, Texas, &amp; Return</td>
<td>3,165</td>
<td>1,329.30</td>
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<td>8/09/08 - 8/13/08</td>
<td>Reno, NV &amp; Return</td>
<td>4,394</td>
<td>1,845.48</td>
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<td>8/21/08 - 8/22/08</td>
<td>New York &amp; Return</td>
<td>1,492</td>
<td>1,659.42</td>
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</tbody>
</table>

Total Overpayment = $52,553.06
What controls can be put in place to avoid these comments?

* Claims were not prepared for all disbursements
* Claims had no supporting documentation
* Claims were not presented to the Council
* Fictitious Invoices were attached to claims
Internal Controls

Claims Process

Control Environment

Risk Assessment

Control Activities

Information and Communication

Monitoring Activities
<table>
<thead>
<tr>
<th></th>
<th>Name</th>
<th>Email</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Todd Caldwell</td>
<td><a href="mailto:tcaldwell@sboa.in.gov">tcaldwell@sboa.in.gov</a></td>
<td>(317) 232-2513</td>
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<td></td>
<td>Susan Gordon</td>
<td><a href="mailto:sgordon@sboa.in.gov">sgordon@sboa.in.gov</a></td>
<td>(317) 232-2513</td>
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