

State Board of Accounts

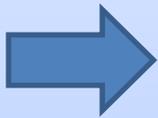
# Internal Control Case Studies

# State Board of Accounts

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.

# State Board of Accounts

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, and  
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

# Case Study: SBOA Reports

## Banking Transactions

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

# Case Study: SBOA Report

## Payroll Transactions

Payroll Overpayment

**\$369,055**

# Case Study: SBOA Report

## Payroll Transactions

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

Total Overpayment = \$17,995.24

# Case Study: SBOA Reports

## Payroll Transactions

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

# Case Study: SBOA Report

## Receipts Not Deposited

# 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

# Case Study: SBOA Report

## Receipts Not Deposited

Receipts Not Deposited :\$230,627

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.”

# Case Study: SBOA Report

## Receipts Not Deposited

“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.”

# Case Study: SBOA Reports Receipt Process

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

# Case Study: SBOA Report

## Credit Card Purchases

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

# Case Study: SBOA Report

## Claims Process

<u>Dates Traveled</u>	<u>Locations Traveled To</u>	<u>Miles Traveled</u>	<u>Amount Reimbursed</u>
7/26/08 - 7/27/08	Biloxi, MS & Return	1,720	\$ 1,852.20
8/03/08 - 8/04/08	Eglin, FL & Return	1,802	1,787.10
8/04/08 - 8/07/08	Florida, Texas, & Return	3,165	1,329.30
8/09/08 - 8/13/08	Reno, NV & Return	4,394	1,845.48
8/21/08 - 8/22/08	New York & Return	1,492	1,659.42

Total Overpayment = \$52,553.06

# Case Study: SBOA Reports

## Claims Process

### **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

# State Board of Accounts

Thank You!

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