

The background features a large, faint watermark of the Seal of the State Board of Accountants, Indiana. The seal is circular and contains the text "STATE BOARD OF ACCOUNTANTS" around the perimeter and "INDIANA" in the center. It is surrounded by a ring of stars.

Internal Controls for School Nutrition Funds

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About the State Board of Accounts



- Created in 1909 in response to widespread corruption
- Mission Statement
 - We are dedicated to providing the citizens of the State of Indiana with complete confidence in the integrity and financial accountability of state and local government.
- Responsibilities
 - Perform audit/exams of all governmental units
 - Prescribe forms and procedures used by governmental units
 - Various other duties including recounts, providing training for local officials, consulting services, etc.



Organizational Flowchart

- SBOA Board (State Examiner, 2 Deputies)
- Directors (2 per area)
 - Schools and Townships
 - Cities/Towns and Special Districts
 - Counties
- Audit Coordinators (5)
- Investigation Coordinators (2)
- Field Examiners (230)



- IC 5-11-1-27
 - 1. Adopt minimum standards
 - 2. Train *Personnel* defined in IC 5-11-1-27(c)
- Next steps? Creating an Internal Control Policy!

Components of Internal Control



- **Control Activities**
 - Actual procedures performed
- **Risk Assessment**
 - Where could things go wrong?
- **Information and Communication**
 - If things go wrong, do you know?
- **Monitoring**
 - It needs to be continuous process
- **Control Environment**
 - 'Tone at the top'

C.R.I.M.E!

Financial Statement Assertions



C.A.V.E C.R.O.C!

- Completeness – is all the activity included?
- Accuracy – is the activity accurate?
- Valuation – are the assets valued correctly?
- Existence – does the fund balance exist?
- Classification – transactions recorded in proper accounts?
- Rights/Obligations – do you have title to your accounts?
- Occurrence – did the transactions occur?
- Cut-Off – recorded in the proper accounting period?

Internal Controls



- Logical Process when designing controls:
 - 1. Identify an Objective
 - 2. Determine the level of risk you are willing to accept
 - Any potential material errors should be addressed!
 - 3. Design Controls to accomplish Objective
 - 4. Put Controls in place
 - 5. Monitor that the controls are achieving the objective
 - 6. Revise controls based upon monitoring assessment

Types of Controls



- *Preventative controls* are those such as requiring dual signatures on checks or having password-protected files. This type of control protects and limits access to assets.
- *Detective controls* include reconciling the bank or inventory counts. Typically these internal controls are performed periodically to see if any need to be corrected. They will often turn up internal errors or problems, as well as any external errors (such as bank errors).

Internal Controls



- Document everything!
- Significant Areas to Consider:
 - Who does what and when
 - Proof that procedures and policies are being followed
 - Evaluation of how effective the policies and procedures are
 - Corrective actions taken to address identified problems

Segregation of Duties



- Duties that “should” be separated:
- Receipt roles - Collecting, Depositing, Recording and Reconciling functions.
- Purchasing roles – Ordering, Receiving, Claim Creation/Approval, Payment, and Reconciling functions.
- Inventory roles - Requisition, Receipt, Disbursement, Conversion to scrap and Receipt of scrap proceeds functions.

		Employee Number							
Duties		1	2	3	4	5	6	7	8
<u>Cash Receipts</u>									
1.	Open mail and write receipt								
2.	Receive money, issue official receipts								
3.	Take off cash register totals								
4.	Balance cash drawer or cash register								
5.	Make up bank deposits								
6.	Take deposits to bank or remit to receiving officer								
7.	Post receipts								
8.	Access to computer system to make adjustments								
9.	Approves adjustments								
10.	Post credits to accounts receivable								
11.	Prepare customer billings								
12.	Mail billings or statements								
13.	Approve bad debt write offs								
14.	Approve accounts receivable adjustments								
15.	Issue permits, licenses, etc.								
16.	Issues receipts for electronic deposits								

<u>Cash Disbursements</u>									
1.	Authorize purchases								
2.	Prepare purchase orders								
3.	Certify receipt of goods or services								
4.	Audit claims								
5.	Approve claims - Disbursing Officer								
6.	Approve electronic transfers								
7.	Write checks								
8.	Initiate electronic transfers								
9.	Post checks								
10.	Sign checks - Control of signature stamp								
11.	Mail or distribute checks								
12.	Custodian of petty cash								
13.	Custodian of investments								
14.	Access to check stock								
15.	Access to computer system to make adjustments								
16.	Approves adjustments								

<u>Payrolls</u>								
1. Post vacation and sick leave records								
2. Check and extend time cards								
3. Prepare payroll claims								
4. Approve payroll claims for department								
5. Approve payroll claims for disbursing officer								
6. Calculate deductions and net pay								
7. Write payroll checks								
8. Sign payroll checks								
9. Distribute payroll checks								
10. Prepare earnings and deductions reports								
11. Prepare W-2s and compare to earnings records								
12. Access to computer system to make adjustments								
13. Approves adjustments								

<u>Cash</u>								
1. Receives bank statement in mail and opens it								
2. Compares checks cleared to disbursements posted								
3. Compares deposits to receipts posted								
4. Prepares bank reconciliation								
5. Approves bank reconciliation								
<u>Statement of Expenditures of Federal Assistance</u>								
1. Enters grant information into Gateway								
2. Approves grant information entered in Gateway								
3. Approves the prepared SEFA								
<u>Financial Close and Reporting</u>								
1. Closes the financial records								
2. Enters financial statement information into Gateway								
3. Approves the Gateway annual report								
4. Approves the prepared financial statements								
<u>Notes to the Financial Statements</u>								
1. Enters the required information into Gateway								
2. Approves the notes to the prepared financial statements								

Prescribed Forms



- Forms and records prescribed by SBOA.
- Form approval process in March 2014 School Administrator
 - https://www.in.gov/sboa/files/scb2014_205.pdf

School Lunch Accounts



- Preferred – School Corporation records.
 - IC 20-41-2-4 – Allows accounting in ECA records.
- Prepaid School Lunch transactions
 - https://www.in.gov/sboa/files/scb2015_211.pdf
 - Prepayments → 8400 Prepaid Food Fund
 - Detail of student balances should be reconciled to 8400 Fund routinely
 - Transfers from 8400 to School Lunch (800) Fund to recognize income once balance used

Record Retention



- SBOA Purposes – Until Audited!
- Indiana Archives and Records Administration (IARA) – Retention Schedules
 - <https://www.in.gov/iara/2739.htm>



Child Nutrition Cluster - Programs



- 10.553 School Breakfast Program (SBP)
- 10.555 National School Lunch Program (NSLP)
- 10.556 Special Milk Program for Children (SMP)
- 10.559 Summer Food Service Program for Children (SFSPC)

Federal Compliance Requirements



- Tested in a Single Audit

1. Control Testing
2. Compliance Testing

- 2017 Compliance Supplement

- https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A133/2017/Compliance_Supplement_2017.pdf

Internal Control – Federal Requirements



- 2 CFR 200.303 states in part: "The non-Federal entity **must**: (a) Establish and **maintain effective internal control** over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."



- Necessary and Reasonable
- Document reasoning by policies
 - If deviate from policies or special circumstances – More Documentation!

Allowable Activities and Costs



FINDING 2016-004

Subject: Child Nutrition Cluster - Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY2014-15, FY2015-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Modified Opinion

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

Effective controls were not in place to ensure that only applicable employees were paid from program funds. The School Corporation paid \$166,186 of administrative, treasurer, and maintenance salaries/wages that were allocated to the programs based on fixed percentages. There was no supporting documentation to indicate how the amounts were determined.

**Allowable Costs:
2 CFR 200.403**

<https://www.gpo.gov/fdsys/pkg/CFR-2014-title2-vol1/pdf/CFR-2014-title2-vol1-sec200-403.pdf>

Cash Management



Condition

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Cash Management and Reporting.

Cash Management (School Breakfast Program and National School Lunch Program)

The School Corporation had not established a control to ensure that the food service balance was less than or equal to the average expenditures for three months.

Reporting

The Food Service Director prepared and submitted the Sponsor Claims, the School Food Authority (SFA) Verification Collection Reports, and the Annual Financial Report; however, there was no control in place to ensure that the reports were correct.

• Key Control:

- Ensure that food service balance less than average of 3 months expenditures.

Eligibility



• Key Control:

- Ensure that free and reduced applications are determined correctly.
- One way is to have another person documenting the review, but not the only way!

FINDING 2016-003 - ELIGIBILITY

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 14-15, FY 15-16

Pass-Through Entity: Indiana Department of Education

Condition

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the Eligibility compliance requirement.

The School Corporation had not established an effective control over the eligibility determination for Free and Reduced Price School Meals Applications. The Food Service Director was the sole person responsible for determining eligibility of applications filed.

The School Corporation had not established an effective control over the notification of households of the children's eligibility. There was no audit evidence available to test whether households who submitted Free and Reduced Price School Meals Applications were notified of the eligibility of their children.

Equipment and Real Property Management



• Key Control:

- Perform an inventory of all property purchased.
- Inventory procedures should be noted in a policy:
 - who takes the inventory?
 - what is done when variances are found?

FINDING 2015-005 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY2014, FY2015

Pass-Through Entity: Indiana Department of Education

Condition

The School Corporation had not established an effective internal control system, which would have included segregation of duties, related to the grant agreement and the Equipment and Real Property Management compliance requirement.

The School Corporation did not maintain property records that included a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, and use and condition of the property.

Context

The School Corporation had a lack of internal controls and had not maintained property records throughout the audit period.

Procurement



- Uniform Guidance
 - <https://www.whitehouse.gov/wp-content/uploads/2018/06/M-18-18.pdf>

	<u>Federal \$ amount</u>	<u>State \$ amount</u>
• Small purchase threshold	less than \$10,000	less than \$50,000
• Requirement for Quotes	\$10,000 - \$250,000	\$50,000 - \$150,000
• Requirement for Bid Process	over \$250,000	over \$150,000

- IC 5-22 – State Purchasing Requirements
 - <https://www.in.gov/sboa/files/IASBO%20Purchasing%20presentation%204-18-17.pdf>

Suspension and Debarment



3 Options:

1. Check the SAM Website
2. Obtain a certification from each vendor
3. Clause in the contract

FINDING 2015-008 - PROCUREMENT AND SUSPENSION AND DEBARMENT

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 13/14, FY 14/15

Pass-Through Entity: Indiana Department of Education

Condition

The School Corporation solicited quotes for the purchase of dairy products for the school food service program for each school year. The School Board accepted the quotes during public meetings; however, no contracts were signed with the successful vendor. The School Corporation did not verify that the vendor was not suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs prior to accepting the quote.

- Applies to contracts expected to be greater than \$25,000.

Program Income



Fix:

- Retain Records!!!
- Use prescribed forms
 - SF-1 - Certification of Meals
 - SF-2 - Daily Record of Cash Received
 - SF-2A - Daily Record of Meals/Milk Served
 - SF-3 - Cash Disbursements and Fund Balance
 - SF-4 - Ledger of Receipts, Disbursements and Fund Balance
 - SF-5 - Ticket Control
 - SF-6 - Equipment Inventory
 - SF-7 - Food Inventory

FINDING 2015-009 - PROGRAM INCOME

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 13/14, FY 14/15
Pass-Through Entity: Indiana Department of Education

Condition

Daily records of cash receipts, which categorized the collections of the school food service program, were not retained for audit; therefore, it could not be determined whether the School Corporation was properly assessing, collecting, and recording program income generated from the school food service program.

All receipts from daily breakfast and lunch sales, as well as prepayments, were recorded in the School Lunch fund subaccount "elementary lunch." A separate fund was not used to account for the collections of prepaid meals.

Reporting



FINDING 2015-010 - REPORTING

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 13/14, FY 14/15
Pass-Through Entity: Indiana Department of Education

Condition

The SNP Annual Financial Reports filed with the Indiana Department of Education for the fiscal years ending June 30, 2014 and 2015, were not supported by the School Corporation's financial records.

Both the Elementary and Jr/Sr High schools indicated that at least 40 percent of their student population were receiving free or reduced meal benefits; therefore, both schools qualified to be reimbursed at the severe needs reimbursement rate for all breakfasts served.

The monthly Sponsor Claims (claims for reimbursement) filed with the Indiana Department of Education from December 2014 through May 2015 indicated that only the breakfasts served to Jr/Sr High School students were the severe needs classification. The breakfasts served to the Elementary School students were incorrectly reported as regular reduced and free breakfasts served.

Fix:

- Process to **verify proper reporting** to IDOE.

Reporting – Example Control



- Annual Financial Report
- Verification Reimbursement Report
- Sponsor Claim for Reimbursement
 - **Possible Control:** Printed (or electronically saved) document to show a review by another person than the submitter.

• <https://scnweb.doe.in.gov>

Special Tests and Provisions



Verification of Free and Reduced Lunch Applications

- Testing of 3% of applications.
- **Control:** Show that these applications were tested appropriately.

Special Tests and Provisions



School Food Accounts

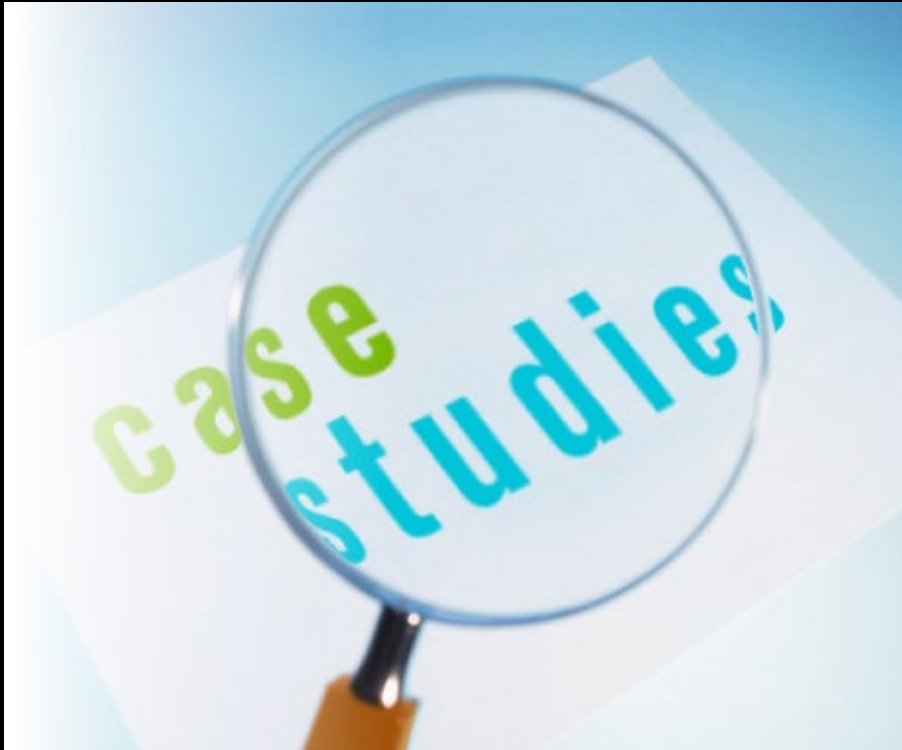
- Operating on a Non-Profit basis.
 - Must have separate accounting.
 - Must promptly credit account for reimbursements.
 - Transfers out must be for benefit of food service account.
- **Possible Control:** Approval of cafeteria managers (signature) on daily cash reports. Policy stating what this approval is verifying.

Special Tests and Provisions



Paid Lunch Equity

- Applies if you charge less than federal meal reimbursement.
 - Options: Raise prices for paid lunches or other contributions.
- **Control**: *Review of the paid lunch equity calculation. Policy stating action to be taken when the paid lunch equity is higher than the weighted average price from previous school year.*



Case Study Example - Receipting



- **Background:**

- The school used a computer software system to record billings and collections of school lunch rental receipts.
- The setup of the computer system authorized the ECA-Treasurer and two other employees to make entries to the student accounts.
- According to the ECA-Treasurer, at the end of each day the secretary was responsible for running the End of Day Report, totaling the payments, and balancing the cash drawer. She would then complete the bank deposit ticket, and finally take the deposit to the bank.
 - For days in which the secretary performed the End of Day duties, the ECA-Treasurer was supposed to verify that the End of Day report, adding machine tape, cash drawer, and deposit agreed and vice versa. Each employee was supposed to initial off on the supporting documentation to indicate that the verification had been completed.
- The computer software system required each user to have a user id and password. Each payment that was posted indicated the employee that supposedly made the entry. The payment posting would automatically be recorded in the Customer Account history portion of the system, which the school employees were not aware of.

Background (Continued)



- The school used a manual system for collecting and recording prepaid school lunch deposits.
- According to the School Treasurer, all employees were authorized to accept payments. When the school employee was presented with a payment, they calculated the student's new account balance, accepted payment, and presented them with a receipt.
- The employee was required to note the payment amount, date, and receipt number. The payments that occurred were entered into the school's financial computer system. The employee responsible for accounting for the day's collections used the computer-generated receipts to compile the bank deposit.

Audit Results



- End of day and verifications procedures not consistently performed to be effective.
- The User ID that entered transactions was not working on all days the user ID was being used.
- We traced payments posted from the Customer History reports to the actual bank deposits and found \$47,057.31 in posted payments that were not deposited in the School's bank account. We found that \$3,300.00 of hand-written receipts and postings to the "Deposit Register" were not deposited in the School's bank account.

Control Environment



- A. The school officials could **clearly express the expectations they have for all employees** to conduct themselves and complete their duties with integrity. (Principle 1)
- B. The school officials could have **made the ECA-Treasurer's duties more specific** and stressed the importance of tasks being segregated. (Principle 3)
- C. The school officials could have **reviewed the duties assigned by the ECA-Treasurer and periodically meet** with her to evaluate the office procedures and the employees that are completing those tasks. (Principle 2)
- D. The ECA-Treasurer could have **required that each employee** that accepted payments **have their own cash drawer**. (Principle 3)
- E. She could have relayed the importance of each employee not sharing their usernames and passwords. She could have **understood the computer accounting system** and used any built-in security measures to establish and evaluate procedures. (Principle 3)
- F. The ECA-Treasurer and the school officials could **develop education and experience guidelines to use during the hiring process** in order to guide them in employing competent individuals. (Principle 4)
- G. The ECA-Treasurer could **establish an annual employee evaluation** process to determine areas in which the school employees are excelling and areas in which they need additional training. (Principle 4)
- H. School officials could support the evaluation system by indicating it would be relied upon in determining additional benefits and disciplinary measures for the future. (Principle 4 and 5)

Risk Assessment



- A. After the ECA-Treasurer assigns the specific duties in the receipt process, she could **determine the likelihood that an employee would make an error or misappropriate funds** while completing their duty. (Principle 6)
- B. She could have consulted with the school officials to **identify risky areas and to determine mitigating procedures** that they would institute to lessen the risk of theft or error. (Principle 7)
- C. The risks could include an employee manipulating the computer system resulting in theft. Receipts not posted correctly or not posted at all could create financial reports that don't give an accurate account of the fund activities and balances, **therefore proper decisions may not be made.** (Principle 8)
- D. The ECA-Treasurer and school officials could **develop contingency plans** for situations in which the environment of the school changes significantly. For example, if the ECA-Treasurer position is vacant for a number of months, then the secretary could establish some additional mitigating controls involving the school board to ensure the internal control system continues to function. (Principle 9)

Control Activities



- As much as possible the procedures to collect, verify, deposit, and post payments need to be segregated among all employees.
- A. The ECA-Treasurer with approval of the school board **could formalize the procedures** below by officially adopting similar procedures as below. (Principle 12)
- B. The secretary could be responsible for collecting payments from customers and issuing receipts. The secretary **counts the drawer to determine total amount collected** for the day. (Principles 10 & 11)
- C. The ECA-Treasurer reconciles the End of Day Collections report to the cash drawer and completes the deposit ticket. She **could also make any corrections/adjustments** requested to customer accounts. (Principles 10 & 11)
- D. The ECA-Treasurer reviews the receipt postings to the customer accounts, verifies the deposit to the deposit ticket and makes the deposit at the bank. She **could also review all adjustments to customer accounts**. (Principles 10 & 11)
- E. The computer accounting system will restrict users from performing tasks that they are not assigned. The **system could limit the ability of certain users to record voids or adjustments** to individual's accounts. The system **could date and time stamp reports used to reconcile** collections to deposits. (Principles 10 & 11)
- F. The School Board could **review reports that compared billings to collections** that could indicate if unexpected postings were being made. They could also **compare collection reports to bank statement deposits** to assess if collections are being deposited. (Principles 10 & 11)

Information and Communication



- A. The ECA-Treasurer could **document and share** with the employees and School Board the **tasks that are assigned** to each employee. (Principle 14)
- B. She could encourage everyone to **evaluate the procedures that she assigns** and provide information that could make the internal controls more effective. (Principle 14)
- C. She could **determine the supporting documents and reports that are needed** to provide an evaluation that the payments received have been posted and deposited. (Principle 13)
- D. The School Board could **inquire/ensure that all employees are performing their assigned tasks**. The ECA-Treasurer could provide notification, through signage, that **all customers making a payment would receive a receipt and customer payment histories would be available upon request**. (Principle 15)

Monitoring



- A. The ECA-Treasurer could perform **random checks of a day's cash collections** to what was counted by the secretary and be verified by another employee. (Principle 16)
- B. She could look for areas in which the **internal control procedures were not followed**. (Principle 17)
- C. The School Board could **randomly request to review collection reports and bank reconcilements** to determine if the information that they are being provided is reliable. (Principle 16)
- D. The ECA-Treasurer and the School Board could **periodically meet to evaluate the internal control procedures** that have been put in place to determine if they need to be updated for controls that are ineffective. (Principle 17)

Case Study Example – Credit Cards



- **Background:**
 - The fiscal officer of a political subdivision used numerous credit cards issued in the name of the political subdivision for unauthorized personal purchases in the amount of \$346,156. The purchases, which spanned a period of six years, included personal items such as food, alcohol, gift cards, toys, grocery, clothing, jewelry, sales tax, batteries, and other miscellaneous merchandise.

Audit Results



1. The political subdivision did not have a formal policy governing the use of credit cards.
2. Payments were not supported by a claim and were not approved by the legislative body.
3. Credit card purchases were not supported by documentation, such as receipts or invoices.
4. Incompatible activities related to disbursements were not separated.

Control Environment



- A. The oversight body and management demonstrate a commitment to integrity and ethical values by **stressing adherence to statutory provisions** regarding the payment of claims, the prescribed accounting system, and uniform compliance guidelines published by the State Board of Accounts. (Principle 1)
- B. The oversight body **adopts a credit card policy** with the minimum requirements set forth in the State Board of Accounts uniform compliance guidelines. (Principle 2)
- C. **Management emphasizes organizational structure and specifically assigns responsibilities** not otherwise delegated by statute, for example individuals responsible for maintaining custody of the cards, reviewing claims for sufficient documentation, and reconciling the credit card statement to approved claims. (Principle 3)
- D. Employees involved in the credit card process are **trained and educated on proper usage**, accountability, adherence to the credit card policies, and compliance with state statutes. (Principle 4)
- E. During the claim approval process, the oversight body and management **evaluate the credit card claims for adherence to the policy**. In the Credit Card Policy, management considers the consequences for failure to follow required procedures; for example, the consequences and responsibility for late charges, insufficient documentation, or personal use. (Principle 5)

Risk Assessment



- A. Example objectives:
 - **Operations Objective:** All credit card charges must be for a business purpose, be supported by appropriate documentation, and submitted in a timely manner. In order to accomplish this objective, management defines acceptable business uses, supporting documentation, and timely submission and designates a person responsible for ensuring compliance with the policy. Ideally this person does not have credit card purchasing authority.
 - **Reporting Objective:** All credit card charges must be accurately reported in the financial statements. In order to accomplish this objective, management requires a procedure comparing bank statement disbursements to approved claims.
 - **Compliance Objective:** Credit card claims must meet the requirements of IC 5-11-10 and be on a form prescribed by the State Board of Accounts. In order to accomplish this objective, management reviews claims individually for supporting documentation, rather than just signing the Accounts Payable Voucher. (Principle 6)

Risk Assessment (Continued)



- B. Management identifies risk, analyzes risk, and develops procedures to mitigate risks associated with credit card usage. Examples of risk, other than fraud risk, are as follows:
 - Non-compliance with statutes.
 - Insufficient Documentation.
 - Interest and Finance Charges.
 - Unnecessary expenses.
 - Insufficient appropriation.
 - Lost or stolen cards.
 - Noncompliance with other policies or ordinances. (Principle 7)

Risk Assessment (Continued)



- C. Management mitigates risk through the adoption of the Uniform Compliance Guidelines related to credit cards, as follows:
 - 1. The **governing board must authorize credit card use** through an ordinance or resolution, which has been approved in the minutes.
 - 2. Issuance and **use should be** handled by an official or **employee designated by the board**.
 - 3. The **purposes** for which the credit card may be used **must be specifically stated in the ordinance or resolution**.
 - 4. When the purpose for which the credit card has been issued has been accomplished, the **card should be returned to the custody of the responsible person**.
 - 5. The designated responsible official or employee **should maintain an accounting system or log** which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
 - 6. **Credit cards should not be used to bypass the accounting system**. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
 - 7. **Payment should not be made on the basis of the statement or a credit card slip only**. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to the late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee. (Principle 7)

Risk Assessment (Continued)



- D. Management considers the types of fraud which can occur with credit card usage, including, but not limited to fraudulent financial reporting and misappropriation of assets. In addition to fraud, management weighs the likelihood of other types of misconduct such as waste or abuse. Considerations which may reduce the potential for fraud include the following:
 - 1. The **number of cards needed**. In this case, an extraordinarily large number of credit cards were issued to the unit.
 - 2. **Designation of authorized users**; documentation that authorized users have agreed to the terms of the credit card policy, statutory provisions, and the prescribed accounting system.
 - 3. Written direction on the **purposes or circumstances for which the cards may be used**, including appropriate purchases and/or appropriate vendors.
 - 4. **Restrictions placed on the cards** to reduce or mitigate the risks, such as a reasonable credit limit, deactivation of cash advancement features, limitation on the purchase amount per transaction, etc. (Principle 8)

Risk Assessment (Continued)



- E. In responding to risk, management reviews the official duties of all employees and purchase adequate bond coverage at amounts equal to or above the minimum amount required by statute. In response to fraud or variances, management **must comply with certain reporting statutes:**
 - IC 5-11-1-27(l) Report of Misappropriation of Funds to State Board of Accounts and Prosecuting Attorney.
 - IC 5-11-1-27(j) Report of Material Variances, Losses, Shortages, or Thefts to the State Board of Accounts. (Principle 8)
- F. The **internal controls and policies** related to credit card usage must be **evaluated and adjusted on a regular basis** for personnel changes, newly elected officials, financial fluctuations, etc. (Principle 9)

Control Activities



- In this case, control activities were not sufficient to detect fraudulent use of credit cards; incompatible activities were not separated. In addition to the policies and procedures outlined in the Control Environment and Risk Assessment section, management may consider the following suggested procedures.
- A. Management assigns a person, other than the official custodian of the credit cards or fiscal officer, to match invoices to charges on the credit card statements and analyze the use of the credit card against adopted policy. In this case, the designee would have noticed that certain charges were not supported by invoices or not related to a business purpose. (Principle 10)
- B. Management assigns a person, other than the official custodian of the credit cards or fiscal officer, to reconcile the credit card statement to credit card claims approved by the legislative body. In this case, the designee would have noticed that the total dollar amount paid on the credit card statement was more than the claim approved by the legislative body. (Principle 10)
- C. Management assigns a person the responsibility to reconcile disbursements per the bank statement to approved claims. In this case, the designee would have noticed that the total dollar disbursements to credit card vendors were more than the claims approved by the legislative body. (Principle 10)

Information and Communication



- Management should receive quality information from internal and external sources regarding credit card usage. If management had reviewed credit card statements and bank statements along with the claims presented for approval, they **would have been able to detect additional charges not submitted for approval.** (Principle 13)

Monitoring



- A designated person, such as an office holder or department head, periodically reviews the completion of designated policies and procedures, such as control activities and determines if controls are being used as designed. Suggested monitoring procedures include:
 - A. An office holder or department head periodically **reviews the analysis of sufficient documentation and appropriate expenses** for credit card transactions. (Principle 16)
 - B. An office holder or department head **periodically reviews the reconciliation of the credit card statement to the approved claims** related to credit card transactions. (Principle 16)
 - C. An office holder or department head **periodically reviews the reconciliation of bank statement disbursement to approved claims.** (Principle 16)
 - D. Violations of policies and procedures are **noted and evaluated.** (Principle 17)

Resources



- Resources for Reference
 - SBOA Internal Controls Standards webpage
 - www.in.gov/sboa/5071.htm and/or www.in.gov/sboa/4445.htm
 - SBOA Internal Controls webinar
 - Embedded on above pages and can be found on YouTube:
<https://www.youtube.com/watch?v=LON80PBbPHQ>
 - Standards for Internal Control in the Federal Government (the Green Book)
 - www.gao.gov/assets/670/665712.pdf

Website Overview



<https://www.in.gov/sboa/4449.htm>



Questions?