



# **INTERNAL CONTROL**

**Presented By: Flora Miller**

**WELL IT LOOKS LIKE IT'S A...**



**CLOSED CASE**



**Understand the  
importance of Internal  
Control**



**Understand the 4 Types  
of Internal Control**



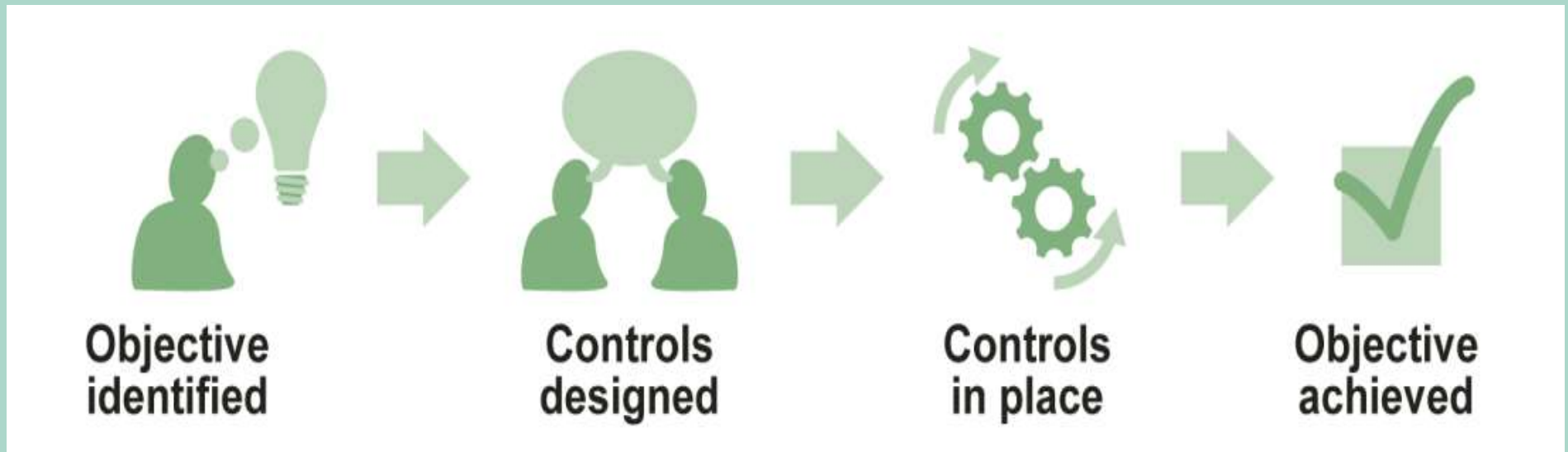
**Identify Internal Control  
Risks and Make Effective  
Recommendations**



**If you see a**



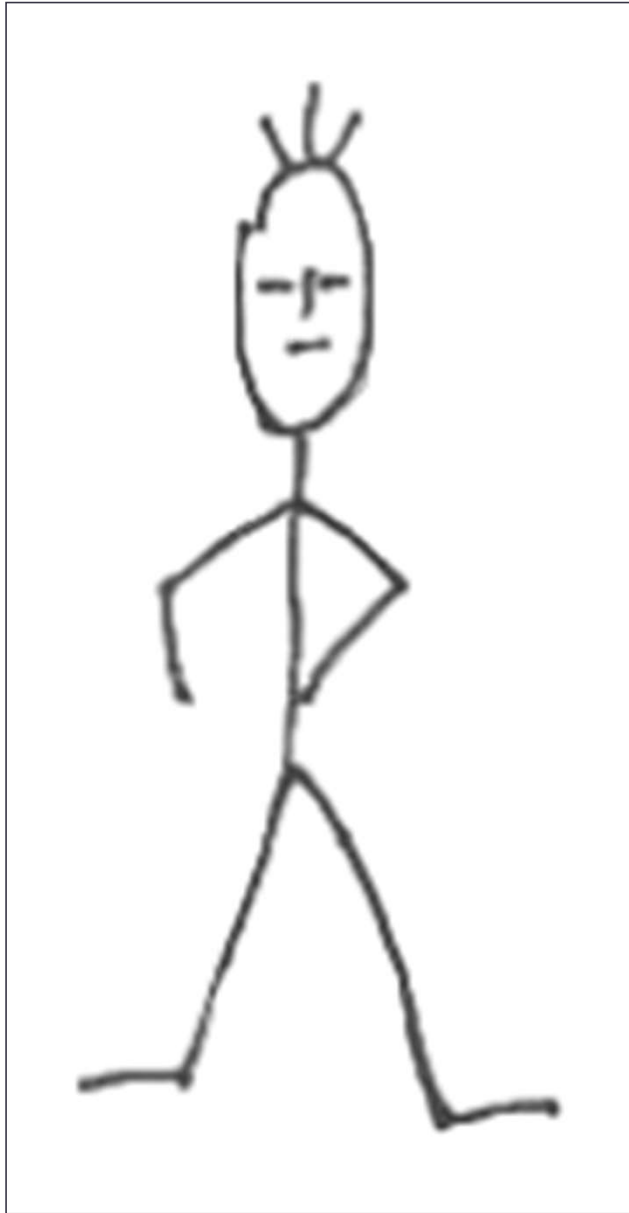
**sign, you  
might want  
to take  
some extra  
notes!**



## Internal Controls



- **In short, it is a process used by management to help achieve agency / program objectives.**
- **It provides reasonable assurance that the objectives of an entity will be achieved.**



**SIMPLETON**

# Simply Put...

## Internal Controls – It's What We Do

- To see the things we want to happen **WILL** happen; and
- The things we don't want to happen **WON'T** happen.

A black and white photograph of a man with a beard and mustache, wearing a white button-down shirt. He has a confused or questioning expression on his face, with his eyebrows furrowed and his hands held out in a shrug. To his right is a blue thought bubble containing the text "So What?".

**So  
What?**



- **You've identified the fraud.**
- **You've supported your findings.**
- **The subject has been arrested.**





# Standards Require It

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## AIG GREEN BOOK

Systemic weaknesses or management problems disclosed in an investigation should be reported to appropriate officials. Normally such disclosures will be made as part of a separate written report including recommendations as to specific corrective actions.



# What is one Role of Internal Controls?

Prevent and Detect Fraud, Waste, and Abuse

**MOTIVE:** A reason for doing something. “I don’t make enough money and was injured in an accident.”



**OPPORTUNITY:** Circumstances that allow fraud to occur. “The office never locks the register, and everyone has access to that room.”



**JUSTIFICATION:** The individual’s rationalization that it’s okay to commit the fraud or crime. “They don’t pay me enough and they will never know it is missing,” or “I will pay it back next week.”



**MOTIVE + OPPORTUNITY + JUSTIFICATION = FRAUD**



# Benefits of Internal Controls



- Ensure internal business is properly transacted.
- Reduce the opportunity for fraud.
- Protect elected officials and employees from personal liability.
- Provide a positive public image by reducing errors, fraud, and mismanagement

# WHAT WOULD YOU DO?

- **A Public Assistance Supervisor diverted \$1.5M in public assistance benefits to her own bank account.**
- **The Supervisor created over 1,700 fake public assistance benefit applications using her subordinate accounts and then approved it under her own account.**
- **Agency security policies restrict the ability to serve as the benefit application creator and approver.**
- **Agency security policies provide individual User IDs and Passwords to systems.**
- **Agency security policies require employees to protect their system passwords.**
- **Employees testified that they felt comfortable providing their passwords with their supervisor.**



# WHAT WOULD YOU DO?

- A Paralegal altered checks that she received for payments from large firms for agency records. She then deposited those checks into her personal bank account.
- The Paralegal was assigned the responsibility for issuing an invoice for payment, receiving the payment, and processing the payment.
- It was only after about 6 months that the agency sent a “bill pay” reminder to the firm that the discrepancies were discovered. The firm provided copies of deposited checks.
- Department policies adequately addressed theft-related issues.



# 4 Types of Internal Controls

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- **Directive**
- **Preventive**
- **Corrective**
- **Detective**

**These control types can be used anywhere in the process.**

# Directive Controls

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- **Used before the process begins**
- **Actions taken to cause or encourage a desirable event to occur.**
- **They can be broad in nature and apply to all situations.**
- **Examples are....**



# Preventive Controls



- Used during the process; but before the risk occurs
- Designed to keep errors or irregularities from occurring in the first place.
- Examples are...



# Corrective Controls

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- Used during the process; but after the risk occurs
- Designed to correct errors or irregularities that have been detected
- Examples are...



# Detective Controls



- Used after the process ends
- Designed to identify errors or irregularities that may have occurred
- Examples are...



## Developing Internal Controls

- **Comprehensive review of grantee applications**
- **Adequate training for grantee personnel**
- **Multiple approval levels for expenditures**
- **Regular monitoring of grantee expenditures and operations by grant administrator**
- **Evaluation of grantee expenditures**



## **IDENTIFIED RISK**

**Inefficient use of grant funds**

**What are some internal controls that might be applied?**

- Adequate training for contractor employees and mgrs.
- Separate entries and reviews by employees, timekeepers and supervisors.
- Lock employees and timekeeper out of time reporting system once hours are entered and approved by supervisor.



## IDENTIFIED RISK

**Possible falsified time charges by contractor employee**

**What are some internal controls that might be applied?**

- On site monitoring and verification of contractor progress
- Confirmation of quality and quantity of items at point of receipt
- On site monitoring of # of personnel and quality of performance
- Comprehensive review of payment requests, invoices, costs, etc.
- No payments authorized until performance confirmed.
- Separation of duties between awarder, monitor, and payer.



## IDENTIFIED RISK

**Government may pay contractor for services not provided**

**What are some internal controls that might be applied?**

# 5 Components of Internal Control



1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information & Communication
5. Monitoring

For each of the five components of Internal Control, obtain and document a sufficient understanding of the:

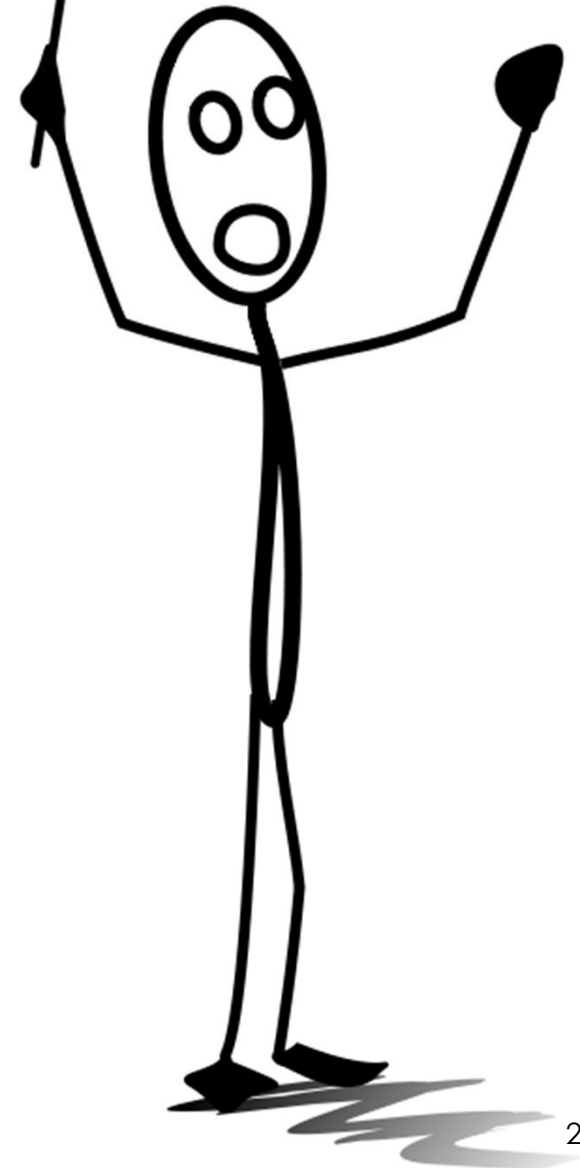
- a. internal control system; or
- b. key controls at the entity level or program level

## Control Environment

- Personnel do not understand acceptable behavior.
- Top management unaware of actions taken at the lower level.
- It is difficult to determine the entities or individuals that have responsibility for programs or particular parts of a program.
- The entity's organizational structure is inefficient or dysfunctional.
- Management displays a lack of concern for internal control and is unresponsive to internal control deviations or recommendations to improve internal control.



**RED  
FLAGS**



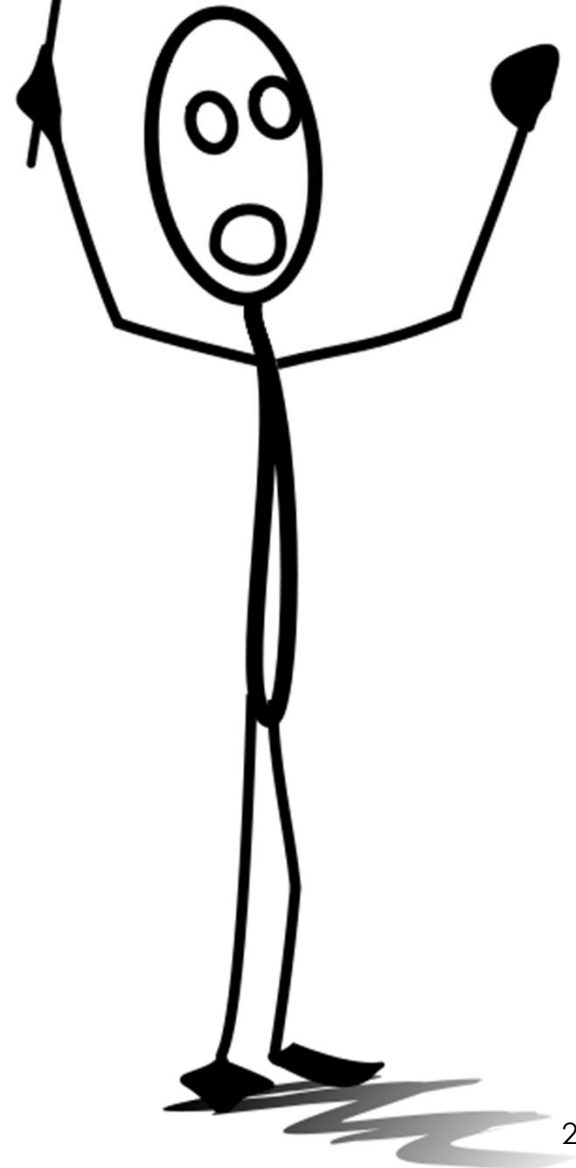


## Risk Assessment:

- Management has not reassessed the risk related to recent major changes (e.g., new responsibilities, reorganization, cuts in funding, and expansion of programs).
- Agency or program does not have well-defined, specific, or measurable objectives and thus has no documented strategy for assessing risks, including fraud risks.
- Management has not considered previous risks of fraud, waste, or abuse in the agency's documented risk assessment and relies on OIG instead to conduct.



**RED  
FLAGS**

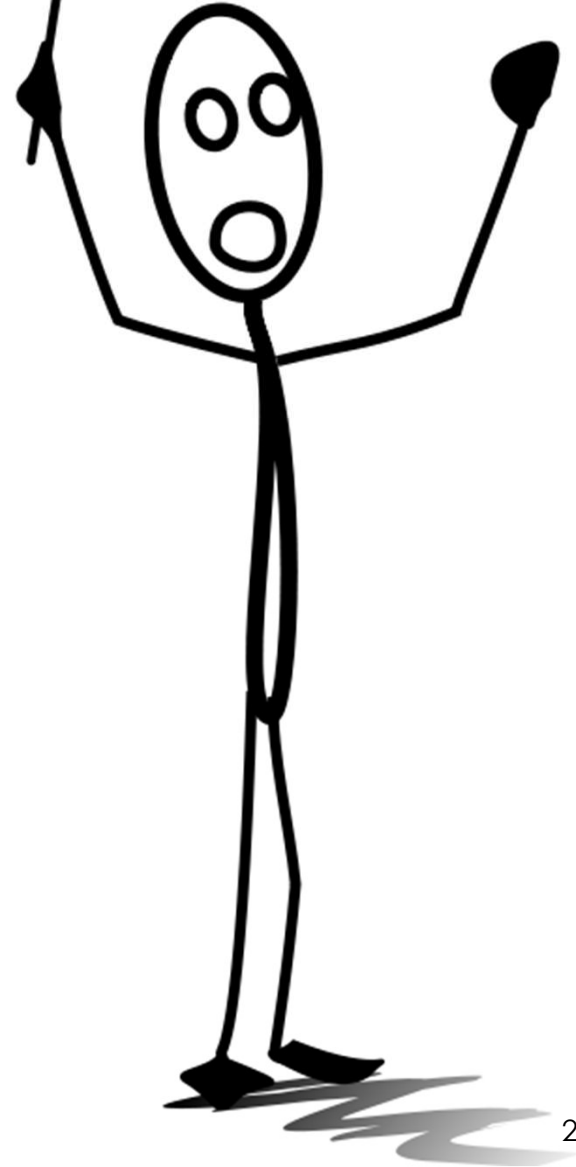


## Risk Assessment (Cont'd):

- Undeveloped risk tolerances; agencies unable to design, implement, operationalize, or prioritize anti-fraud controls efficiently or effectively.
- Agency has not developed fraud risk tolerances when assessing fraud risks.
- Agency has conducted a fraud risk assessment but has not documented their assessment.
- Agency staff are frustrated by requests for data and contracts because they are time-consuming, and items requested are difficult to locate.



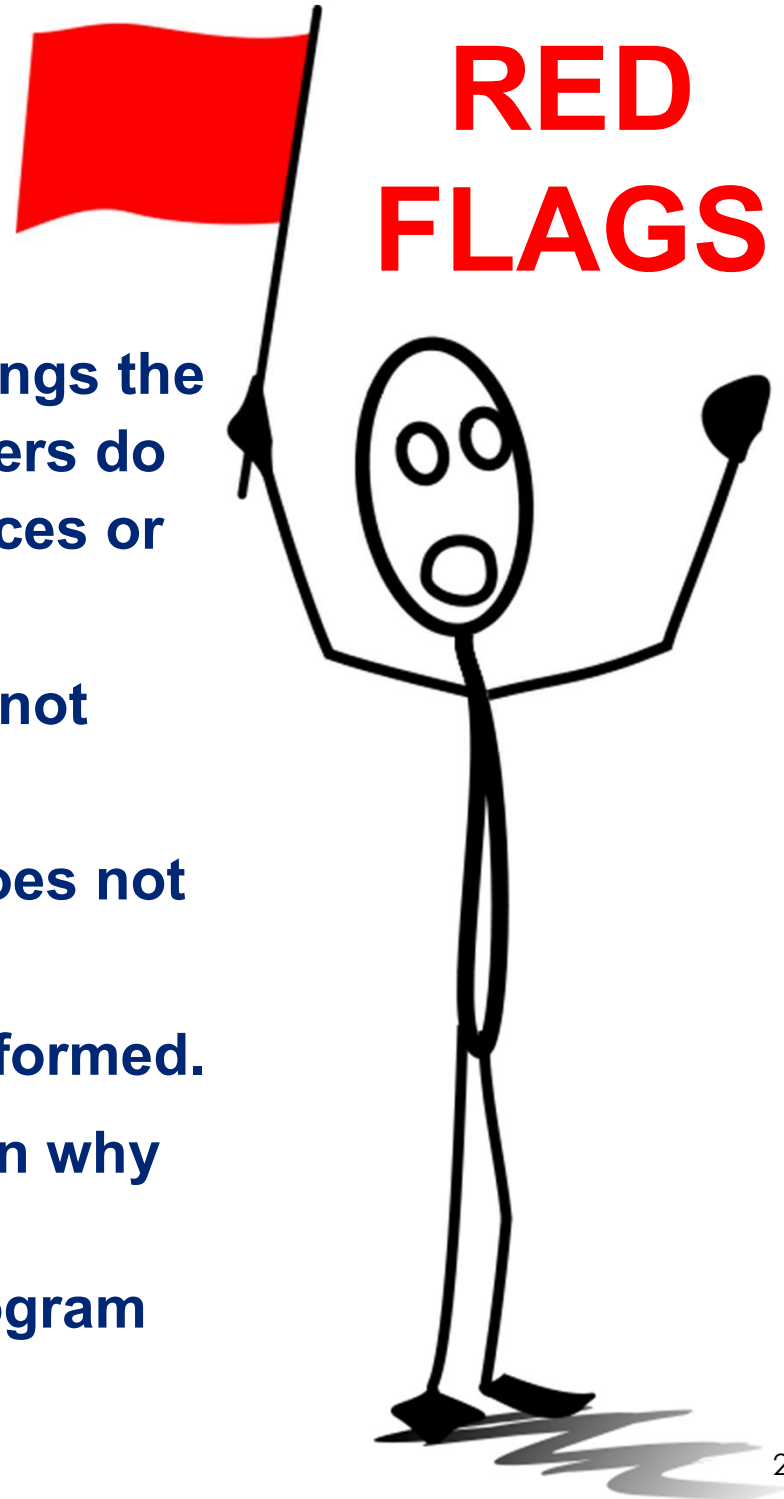
# RED FLAGS



## Control Activities:

# RED FLAGS

- Employees are unaware of policies and procedures, or they are aware, but do things the way “they have always been done,” “others do it that way,” or because of limited resources or time and goal pressures
- Operating policies and procedures have not been developed or are outdated.
- Key documentation is often lacking or does not exist.
- Key steps in a process are not being performed.
- Personnel and management are uncertain why processes are being performed or how processes are related to and support program goals.

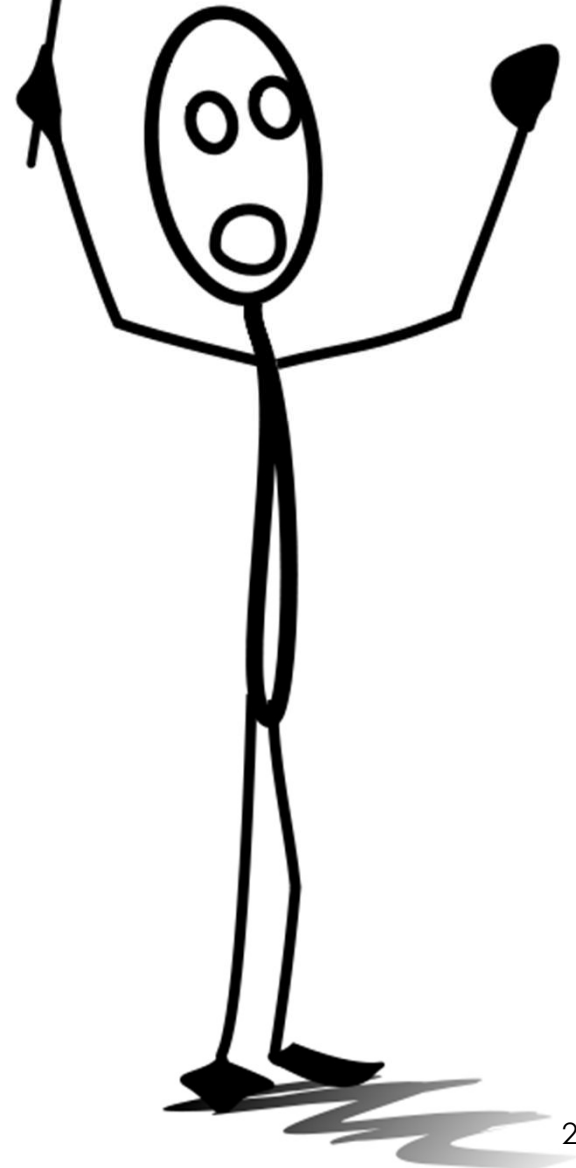


## Information & Communication:



## RED FLAGS

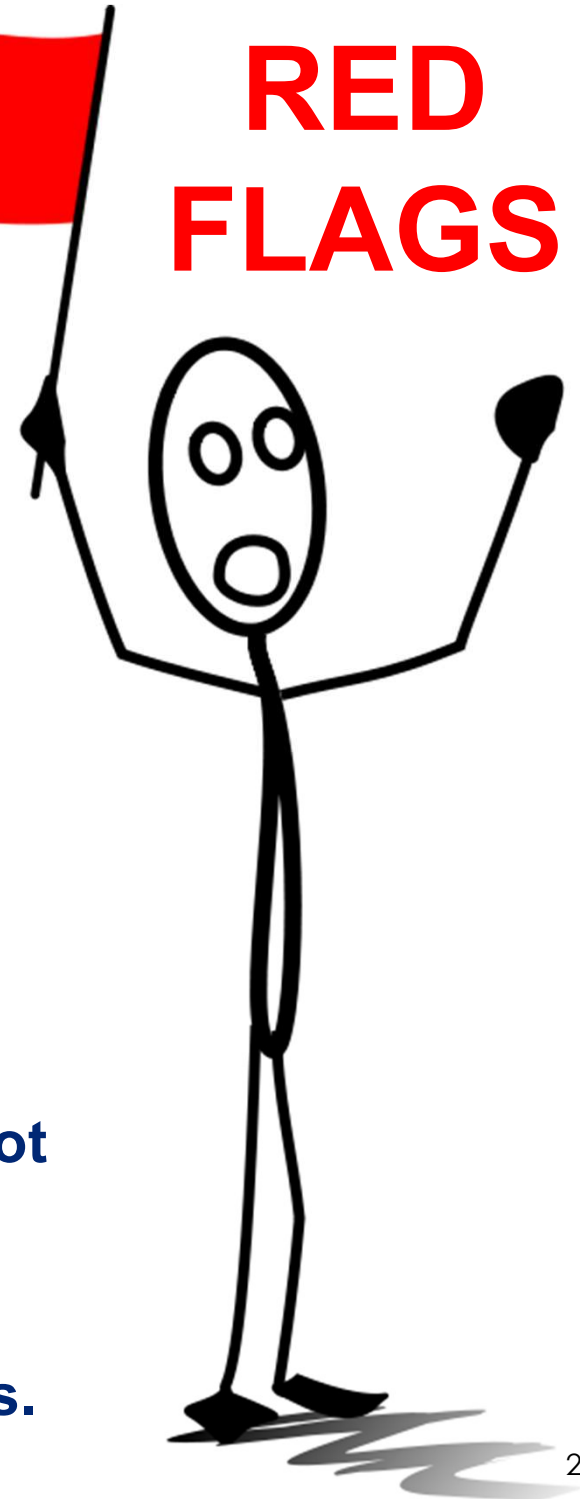
- When top management needs information, there is an excessive rush to assemble the information, or the process is handled through ad hoc mechanisms (e.g., the information was not readily available).
- Key information requests for basic information on the status of operations from external stakeholders (e.g., Congress or GAO) are difficult for the agency to respond to and require extra resources or special efforts.
- Staff frustrated by requests for information because it is time-consuming and difficult to provide information.
- Management does not have reasonable assurance that the information it is using is accurate.



## Monitoring:

# RED FLAGS

- Management does not evaluate a program on an ongoing basis.
- Significant problems exist in controls and management was not aware of those problems until a big problem occurred or until an outside party brought it to its attention.
- There are unresolved problems with the other components: control environment, risk assessment, control activities, and information and communications.
- Previously identified engagement findings are not being resolved adequately or timely.
- Management misses key deadlines and was not aware that it would not be able to meet deadlines.



When developing recommendations, we should consider whether the recommended actions are:

- Achievable
- Specific
- Cost-Effective
- Measurable



# RESOURCES

A silver signpost with a decorative top is shown against a light teal background. It has six green directional signs with white text. From top to bottom, the signs read: 'HELP' (pointing left), 'TIPS' (pointing right), 'ASSISTANCE' (pointing left), 'GUIDANCE' (pointing right), 'SUPPORT' (pointing left), and 'ADVICE' (pointing right).

**AIG**

<http://inspectorsgeneral.org/>

**CIGIE**

[www.ignet.gov](http://www.ignet.gov)

**COSO**

[www.coso.org](http://www.coso.org)

**GAO**

[www.gao.gov](http://www.gao.gov)

# **QUESTIONS OR COMMENTS?**

The background of the slide features a light blue and white pattern of colorful question marks in red, blue, green, and yellow. At the bottom, there is a blurred image of many hands of various skin tones raised in the air, suggesting an audience or a group of people.

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