



## Executive Branch Financial Internal Control

### Internal Control Objectives:

- Safeguarding taxpayer money and other assets against loss, misuse, or waste.
- Prevention of fraud and errors in financial activities and financial reports.
- Ensuring reliable financial information and reporting.
- Ensuring effectiveness and efficiency of operations.
- Ensuring compliance with federal and State laws, regulations, and policies and procedures.

### Internal Control Responsibilities:

- Elected officials are responsible for laws, policies, and appropriate “tone at the top”.
- Central services agencies, such as Administrative Services (DAS), Technology Services (DTS), and Human Resource Management (DHRM) are responsible for statewide rules, policies, many of the overall system and other controls, and some monitoring activities.
- Agency management is responsible for internal control at the agency level, including designing and implementing controls necessary for the agency within the control framework established statewide.
- Agency employees are responsible to follow department and statewide policies and carry out assigned internal control duties.

### Division of Finance Internal Control Responsibilities and Activities:

- Statewide policies and rules.
- Central accounting system (FINET), Payroll, and Data Warehouse controls and processes.
- Financial reporting controls (CAFR and Single Audit).
- Budgetary controls in accordance with the Budgetary Procedures Act.
- Post-auditing of agency FINET and **P-card** expenditures.
- Internal Control Program – Agency self-assessments, field reviews, training and consultation.
- PCI coordinator – Assists agencies and DTS to help ensure compliance with Data Security Standards (DSS) of the credit card industry.

### Finance Internal Control Assessment Areas:

- |                                 |   |
|---------------------------------|---|
| - Cash Disbursements            | - Cash Receipts                           |
| - Capital Assets                | - Payroll & Personnel                     |
| - Receivables – FINET System    | - Receivables – Non-FINET System          |
| - IT Security                   | - IT Development, Implementation & Change |
| - Systems interfaces with FINET | - IT Financial Systems and IT Group       |



- Investments
- Risk Assessments
- 8 Single Audit Related Areas

## Internal Control – Basics

### Separation of Duties:

- No one person should have excessive control over one or more transactions or critical processes.
- No one person should have unrestricted access to assets.
- Checks and balances are set up to limit control and access.
- When proper separation of duties exists, fraud is more difficult to commit because it requires collusion, and innocent errors are more likely to be prevented or detected.
- General categories of functions to be separated:
  - Authorization
  - Recording
  - Custody of or access to assets
  - Reconciliation or audit

### Cash Receipts (All forms: cash, checks, credit card, electronic) Recommended Controls:

- Two people together process incoming receipts.
- Receipts are captured on a log in a timely manner.
- Separate individual records transactions in FINET.
- Independent person reconciles FINET cash receipting log/record.
- Independent person reconciles bank statement to FINET.

### Cash Disbursements Recommended Controls:

- Independent authorization of transaction.
- Separate individual inputs transaction in FINET.
- Separate individual approves transaction in FINET (Enforced by FINET).
- Independent bank reconciliation.
- Independent budget approval where required.

### P-Card Recommended Controls:

- P-card purchase log is required.
- Independent monthly review of P-card log and original receipts by supervisor or other independent individual, to monthly P-card statement from the bank.



- Central recording of P-card transactions in FINET monthly to default clearing code.
- Separate individual records transactions from log to FINET to move charges to proper object code from clearing code.

## **P-Card Program Review**

The statewide P-card program administered in Finance is currently undergoing a review. Finance plans to make improvements in the following areas:

- Policy clarifications.
- Move policies within statewide accounting policies.
- Require independent reviews of P-card logs, statements, and original receipts to include a check of the online statement directly from the bank's P-card website.
- Require Finance post-auditors to include a check of the online statement from the bank's P-card website.
- Emphasize that original receipts are required and increase emphasis on what to do if a receipt is lost.

Additional areas of improvement may be identified as we complete our review.