

Louisiana Office of State Inspector General

INTERNAL CONTROLS

What are they?

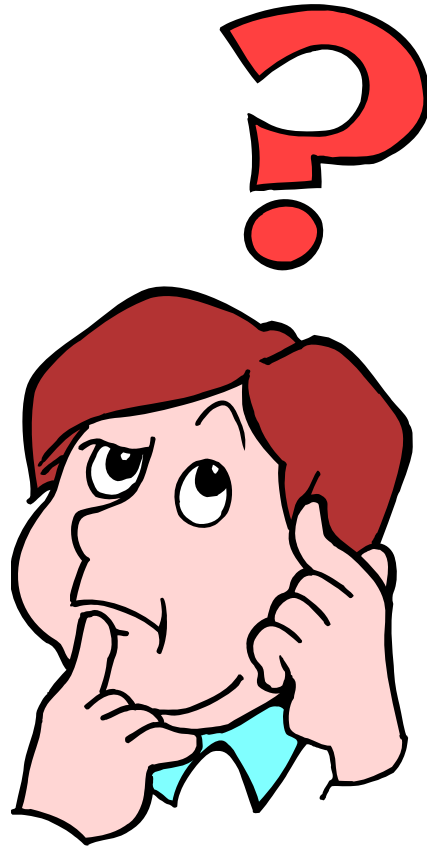
Why should you care?

What is Internal Control?

Internal control is a process, developed by the administration and line management, designed to provide reasonable assurance of achieving objectives in the following areas:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

How about some
examples?



Think about what YOU do

- You lock your home and your vehicle.
- You keep your ATM/debit card PIN number separate from your card.
- You review bills and credit card statements before paying them.
- You don't leave blank checks or cash just lying around.
- You expect your children to ask permission before they can do certain things.

Department internal controls are similar



- Offices, buildings, and state vehicles are kept locked when unoccupied.
- Computer passwords are periodically changed and shouldn't be written down by the computer.
- Checking management reports and purchase card charges against source documents.
- Locked cash drawers and secure storage for checks.
- Authorizations required for certain activities.

Internal controls are meant to:

- Protect assets
- Ensure records are accurate
- Promote operational efficiency
- Encourage adherence to policies, rules, regulations, and laws.

Internal controls are usually either PREVENTIVE or DETECTIVE



- **Preventive** - Let's stop an unwanted outcome before it happens.

Detective - Let's find the problem before it grows.



Examples of Preventive Controls

- Reading and understanding applicable policies to learn the right way to do things.
- Review and approval process for purchase orders or requisitions to make sure they're appropriate before the purchase.
- Use of computer passwords to stop unauthorized access.

Examples of Detective Controls

- Cash counts and bank reconciliations
- Reviewing payroll reports or, on a personal level, your pay check or advice
- Comparing transactions on monthly management reports to departmental source documents
- Monitoring expenditures against budgeted amounts

Who is Responsible for Internal Control?

EVERYONE

The Department Head

- **Is responsible for the general governance and administration of the department.**

Charged with issuing institutional rules and regulations that govern the well-being of persons and security of department property.

These are the basis of the department's internal control system.

Assistant Secretaries

Are appointed by the department head to provide oversight and direction to senior administrators responsible for major areas such :

- Offices/Sections**
- Auxiliary Operations**
- Support Services**

Office Heads

- Are responsible for designing and implementing control systems for the units under them.
- Are responsible for executing entity-wide control policies and procedures and those originating from the Assistant Secretary's office.
- These responsibilities should come with the authority needed to see that controls are implemented
- With responsibility comes accountability to the next higher level.

Managers

- Are responsible for designing and implementing controls specific to their area.
- Are responsible for implementing entity-wide control policies and procedures and those originating from above them.
- These responsibilities should come with the appropriate authority and accountability.

EVERYBODY

- Read and understand the policies and procedures that affect you and your job.
- Comply with the controls established to protect both you and the department.
- As you do a job, if you notice a control weakness point it out to your supervisor or manager.

Thinking about internal controls?

Consider the following:

- **Propriety of transactions** - Is this legal and right (Does it look or feel wrong? Would someone else think so?).
- **Reliability and integrity of information** - Is the information/form/data accurate and complete?
- **Compliance with department policies and government regulations** - Are you following established instructions or procedures?
- **Safeguarding assets** - Could anyone take or gain access to items under your control without being observed?
- **Economy and efficiency of operations** - Is there a better way to do the job?

Other Considerations

- **The cost of a control should not outweigh the benefit.** Assigning two guards to follow someone around to make sure neither the person nor the other guard takes anything isn't reasonable. Some controls cost little. For instance, having a supervisor countersign a void receipt to protect the cashier from being accused of pocketing the money.
- **You can't pick and choose which "official" controls you want to comply with.** If a procedure doesn't seem to make sense or appears unnecessary, check it out with management and get it changed. Don't stop complying until the change is official, you may not have the full picture.
- **Controls are there to protect you as well as the department.**

Internal Audit Sections

Systematically, and objectively evaluate the department's operations and controls to determine if:

- Financial and operating information is accurate and reliable
- Risks to the department are identified and minimized
- External regulations and acceptable internal policies and procedures are followed
- Satisfactory standards are met
- Resources are used efficiently and economically
- Objectives are effectively achieved

What does THAT mean?

Internal audit could be considered a detection control. By looking at documents, records, operations, and interviewing people, internal audit checks to see that the other controls in place are working as intended.

Depending on what was found, recommendations will be made to assist managers, improve operations and decrease risk to you and the department.

Why don't controls always work?

- Inadequate knowledge of department policies or governing regulations. “I didn't know that!”
- Inadequate segregation of duties. “We trust ‘A’ who does all of those things.” Remember, in general only people we trust can steal from us, we watch the others.
- Inappropriate access to assets. Passwords shared, offices left unlocked, cash not secured . . .
- Form over substance “You mean I'm supposed to do something besides initial it.”
- Control override. “I know that's the policy, but we do it this way.” “Just get it done, I don't care how.”
- Inherent limitations. People are people and mistakes happen. You can't foresee or eliminate all risk.



Office of State Inspector General
P. O. Box 94095
Baton Rouge, LA 70804-9095
or
224 Florida Street, Suite 303
Baton Rouge, LA 70801
(225) 342-4262

<http://www.doa.louisiana.gov/oig/inspector.htm>

Office of Inspector General