

New Internal Control Self-Assessment Program (ICSAP)

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Background & Introduction

- Pressure on governments to establish enhanced internal control frameworks similar to those used currently by U.S. public company boards (Sarbanes-Oxley Act).
- Auditing standards have changed in recent years to require the external auditor to ensure management (1) does a risk assessment, (2) gains a more in-depth understanding of internal controls, and (3) determines if those controls are properly designed, in place, and functioning as planned.
- The National Association of State Comptrollers (NASC) is developing an internal control guide and internal control questionnaires (ICQ).
- ABC Report.

Utah: The Best Managed State

Utah has won various awards for being the “best managed state” in various categories, including:

- Money.
- Infrastructure.
- Information.
- Human Resources.

However, we are behind in a couple of areas:

- Internal Controls.
- Risk Assessment.

Many states have a law, a policy, and a program for identifying and assessing risks and internal controls.

Internal Control Objectives

Internal Control is a process effected by management designed to achieve three basic objectives:

- Efficiency and effectiveness of operations.
- Reliable financial reporting.
- Compliance with federal and State laws, regulations, and policies and procedures.

Internal controls are what management puts in place to help ensure these objectives are reached. Management is responsible for internal controls – not external auditors. This concept, for some, will take some getting used to.

Purpose

The purpose of this program is to assist each State agency with its responsibilities to maintain sound internal controls. It is our hope that the State agencies, the agency coordinator team representatives (ACT, which is usually the Controller), and executive directors will support this new program.

We realize this is an additional workload on agencies still coping with recent budget cuts. However, in light of recent events and some audit reports and legislative concerns, we feel the agencies need some assistance in identifying and assessing risks and internal controls.

Benefits

- Reducing the risk of:
 - Fraud and errors in financial reports.
 - Loss, misuse or waste of taxpayer dollars or other assets.
 - Noncompliance with State and federal laws and State policies and procedures.
 - Embarrassment and repercussions that can come from related events.
- A process to assist each agency in accomplishing their internal control objectives/responsibilities.
- A process to assist the State's central management in assessing the condition of internal control systems in agencies.
- A designated contact with each agency, who has a background in internal controls.
- A designated contact with the State Division of Finance, who has a background in internal controls.

Authority

The Division of Finance is authorized and required to do the following:

- Utah Code 63A-3-103.
 - “(b) provide for the accounting control of funds;”
 - “(e) prescribe other fiscal functions required ... to transact all executive business for the state.”
- Utah Code 63A-3-203
 - “(a) exercise accounting control over all state departments and agencies.”
- Utah Code 63A-3-204.
 - “(b) maintain a financial control system according to generally accepted accounting principles.”

We believe State Finance has the necessary authority to implement the new internal control policy and the new internal control self-assessment program.

New Division of Finance Policy

The new policy, which is on the State Division of Finance website, requires State agencies to do three things:

1. Have sound internal controls.
2. Have adequate segregation of duties.
3. Participate in the new Internal Control Self-Assessment Program.

New Internal Control Questionnaires (ICQ)

- What is an Internal Control Questionnaire (ICQ)?
- Currently planned ICQs include the following:
 - Cash Disbursements
 - Payroll & Personnel
 - Control Environment
 - Risk Assessment
 - Receivables
 - System Interfaces with FINET
 - Cash Receipts
 - Capital Assets
 - Accounting System
 - Information Systems
 - OMB Circular A-87
 - Financial Reporting
- Other ICQs covering various aspects of federal grants are also being developed but will be optional.
- These ICQs have been tailored for use by Utah State agencies.

Two ICQs now ready

- The Cash Disbursements ICQ and the Cash Receipts ICQ are now available on the State Division of Finance website.
- The Cash Disbursements ICQ was due back to State Finance by March 31, 2012; the Cash Receipts ICQ by June 30, 2012.
- Read the directions on the forms.
- How many Cash Disbursement ICQs and Cash Receipts ICQs does my agency need to complete and return?
- Provide complete explanations for all “No” responses.
- “No” explanations should include either a description of the compensating control(s) or a corrective action plan including estimated completion date.

Example #1 - Explanations for “No” Responses

- Question: “Are there procedures to prevent and detect splitting purchase orders to avoid obtaining and documenting higher levels of approval prior to the purchases?”
- Answer: “No.”
- Comments: “The XYZ agency was unaware of this policy. All purchasing personnel are being trained on this state policy, and procedures are being implemented to ensure compliance. The estimated date of completion is January 10, 2012.”

Example #2 - Explanations for “No” Responses

- Question: “Are responsibilities for preparing bank reconciliations segregated from cash receipt and disbursement responsibilities?”
- Answer: “No.”
- Comments: “The XYZ agency is a very small agency (45 employees) and proper segregation of duties is difficult. Our compensating control is that the accountant who performs both cash disbursement and bank reconciliation duties is closely supervised by their manager including reperforming the bank reconciliations on a surprise basis (approximately quarterly).”

Example #3 - Explanations for “No” Responses

- Question: “If payments are received over the counter, are receipts controlled by cash register, pre-numbered receipts, or other means?”
- Answer: “No.”
- Comments: “Though the University does not provide the student with a receipt when tuition is paid over the counter, a compensating control is that the student’s check serves as their receipt. If the money is stolen or applied to the wrong student’s account by the cashier, then the student will be billed again for the tuition and will come in and complain until the error is corrected. However, since it would be difficult to identify which cashier was responsible, we are changing our system to produce a pre-numbered receipt for all over-the-counter receipts. This change should be in place for the next semester beginning September 1, 2012.”

New Internal Control Guide

A new Internal Control Guide is being written to provide:

- A reference to help managers and employees better understand the elements of their jobs that contribute to the internal control system and to improve their performance.
- A manual for future training on internal controls, including segregation of duties, compensating controls, ICQ corrective action plans, and risk assessments.

ACT (Controller)

Each agency has an agency coordinator team representative (ACT) who attends the monthly State Division of Finance ACT meetings. Ideally, the ACT is the agency's Director of Finance or Controller. However, if someone else is assigned to attend ACT meeting, they should have a solid accounting and internal control background. Someone other than the ACT can be designated as the ICSAP contact person in each agency, but they also would need to attend ACT meetings.

Role of ACT (or ICSAP contact)

The agency's ACT (or ICSAP contact person if different than the ACT) will need to:

- Attend the monthly State Division of Finance ACT meetings.
- Determine which and how many of the new program's ICQs should be completed.
- Complete the ICQs or distribute the ICQs to those who will complete them.
- Gather the completed ICQs back up after they are completed.
- Have the Director of Finance/Controller review and approve them.
- Have the Agency Head/Executive Director review and approve them.
- Send the completed and approved ICQs electronically to the Division of Finance.
- Send the completed and approved ICQs to the agency's internal auditors, if applicable.

Now available on the Division of Finance Website

<http://www.finance.utah.gov/>

Use the web address above.

Click on “Internal Control.”

The following documents are now available on the Finance website:

- New State Policy on Internal Control.
- New Cash Disbursements ICQ.
- Slides from 12-13-11 ACT meeting.

Expanding Influence

State Finance has no authority over the following:

1. Courts..... (So far, have elected to participate.
Hopefully, will be pushed down to the
individual courts.)
2. Legislature..... (Launching own program)
3. Higher Education..... (Launching own program)
 - a. Colleges
 - b. Universities
 - c. Applied Technology Centers

Special Projects Coordinator

Role:

- Answer questions but not make decisions for agencies.
- Review completed and approved ICQs.
- Follow up with agencies to ensure timely and complete ICQ submissions including corrective action plans for problems noted.
- Track agencies' progress and report to DAS Director of Finance.
- Develop and update ICQs.
- Develop and update Internal Control Guidebook.
- Develop new course on Internal Controls.

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