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# Objectives

- Gain an understanding of internal controls
- Understand the benefits an entity may realize with the use of internal controls
- Recognize situations that may occur without them by discussing examples





# Fundamental Concepts

- Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.



Source: GAO. | GAO-14-704G





# Fundamental Concepts

- Internal Controls
  - Achievement of objectives
  - Process of ongoing tasks and activities
  - Affected by people and their actions
  - Provides reasonable assurance, not absolute assurance
  - Adaptable to entity structure





# Control Activities

- Segregation of Duties
- Approval Authority
- Accurate and Timely Record Transactions
- Restrict use of credit cards and verify all charges
- Prepare all fiscal policies and procedures in writing
- Ensure agency assets such as vehicles and cell phones, are used only for official business





# Types of Controls

- Preventative vs. Detective Controls

Preventative Controls	Detective Controls
Segregation of Duties	Exception Reports
Proper Supervision	Reconciliations
Security of Assets	Annual Physical Inventory Counts
Proper Authorization for Purchases	Comparing Invoices to Purchase Orders





# Types of Controls

- Hard Controls

- Policies
- Procedures
- Systems

- Soft Controls

- Tone at the top
- Ethical climate
- Transparency
- Morale
- Trust





# Types of Controls

<b>Hard Control</b>	<b>Soft Control</b>
Written code of ethics	Management acts ethically
Policy to report fraud	Employees aware of procedures to report fraud
Time clock	Employees know how to use time clock correctly
Exception reports to management	Exception reports are reviewed and investigated
Records are reconciled to general ledger	Employees suggest ways to improve processes







# Tribal Self-Governance

- Indian Self-Determination Contracts
  - Unique agreements
  - Government-to-government relationship
  - Management principles still apply
  - 25 CFR Part 900 – Contracts Under the Indian Self-Determination and Education Assistance Act





# Tribal Self-Governance

- 25 CFR Part 900 Contracts Under the Indian Self-Determination and Education Assistance Act
  - Subpart F – Minimum standards for financial procurement, and property management systems
  - Internal controls on of the specific minimum requirements for financial management system (25 CFR § 900.45 (c))





# Tribal Self-Governance

- Indian Self-Governance Compacts
  - Provides meaningful authority, control, funding and discretion
  - Government-to-government relationship
  - Generally, not subject to agency circular, policy, manual, guidance or rule adopted by IHS





# Tribal Self-Governance

- 42 CFR § 137.167 Tribal Self-Governance
  - Regulations codify rules for self-governance compacts
  - Annual audit still required (42 CFR § 137.167)
  - Tribe must apply cost principles with some exception (42 CFR § 137.167)





# Tribal Self-Governance

- 2 CFR § 200.303 - The non-Federal entity must 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.





# Tribal Self-Governance

- 2 CFR § 200.62 - Internal control over compliance requirements for Federal awards: A process implemented by a non-Federal entity designed to provide reasonable assurance that
  - Transactions are properly recorded and accounted for,
  - Transactions are executed in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award, and
  - Funds, property, and other assets are safeguarded against loss from unauthorized use.





# Benefits of Internal Controls

- Provides reasonable assurance regarding the achievement of objectives
- Helps protect assets and reduce possibility of fraud
- Increases financial reliability and integrity
- Ensures compliance with laws and statutory regulations





# Benefits of Internal Controls

- Internal controls can also help protect employees
  - by clearly outlining tasks and responsibilities
  - by providing checks and balances
  - from being accused of misappropriations, errors or irregularities.







# Control Limitations

- Limitations which may hinder the effectiveness of an otherwise adequate system of internal controls include:
  - resource constraints
  - inadequate skill, knowledge or ability
  - degree of motivation by management and employees
  - faulty judgments
  - unintentional errors





# Lack of Internal Controls

- Fraud is defined by Black's Law Dictionary as a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment.
- Consequently, fraud includes any intentional or deliberate act to deprive another of property or money by guile, deception, or other unfair means.
- Poor internal controls creates opportunity for fraud





# Examples of Poor Controls

- Timesheets not checked against time clock records
  - 223 instances in which the variance was greater than 2 hours
  - 167 instances in which the time clock record shows that employees omitted to clock in and out
  - Time clock reports rarely showed 80 hours per pay period, yet timesheets always showed 80 hours





# Examples of Poor Controls

- Lack of oversight and proper approval of leave used
  - 173 instances in which employees were ineligible for holiday pay due to unapproved leave
  - 338 instances in which employees used leave (annual, cultural, funeral, jury, admin, advanced) although the leave was unapproved
  - 119 instances where 4 employees earned excessive amounts of annual leave





# Examples of Poor Controls

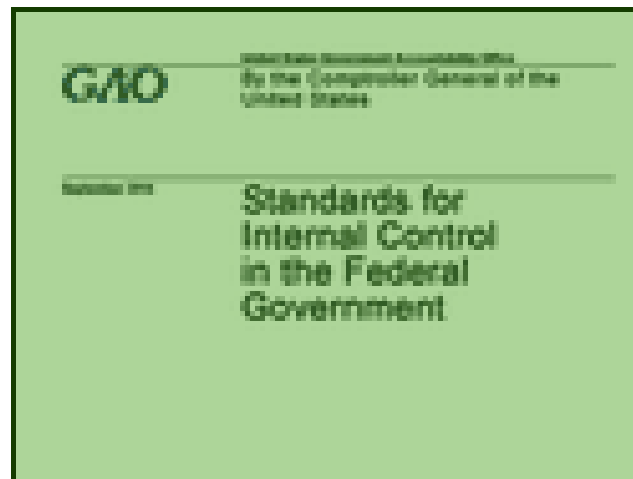
- Lack of Proper Documentation
  - Requests were made on sticky notes
  - Requests were made on blank pieces of paper
  - Wrong forms were used
  - Timesheets missing
  - Time clock records missing





# Resources

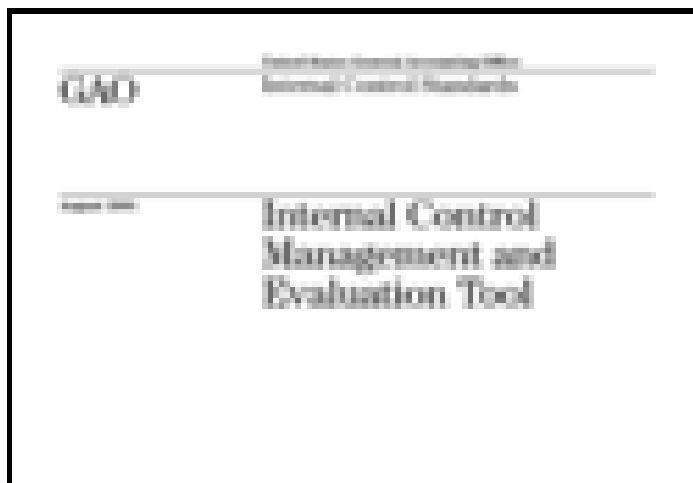
- *Standards for Internal Control in the Federal Government* – by the Comptroller General of the United States dated September 2014 (<https://www.gao.gov/greenbook/overview>)





# Resources

- *Internal Control Management and Evaluation Tool* – by the General Accounting Office dated August 2001 (<http://www.gao.gov/products/GAO-01-1008G>)





# Resources

- Internal Control – Integrated Framework-  
by the Committee of Sponsoring  
Organizations of the Treadway Commission  
dated 2013 ([www.coso.org](http://www.coso.org))

