



Nuts and Bolts of Internal Controls – How do I Implement SAS 112?

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- 🔩 2007 – 2008 new standards were issued requiring documentation of Internal Controls (IC)
- 🔩 Nothing new to accountants – IC understanding has always been required – now documentation is required
- 🔩 The year just finished would have seen management letters with more suggestions than in the past

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- **Narration provided by you**
- **Walkthroughs of significant processes for local governments primarily**
 - Budget process to encompass appropriations and encumbrances
 - Receipts of all funds – local, state, federal
 - Disbursements – including procurements
 - Payroll and HR procedures
 - Closing procedures – month end, year end
 - Control over journal entries

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- ❏ **Significant Deficiencies** – “probably would” cause the financial statements to be materially misstated
- ❏ **Material Weaknesses** – most certainly could cause the financial statements to be materially misstated

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Most common deficiencies:

- Lack of segregation of duties
- Lack of proof of supervisory review over adjustment journal entries
- Review of spreadsheets
- Capitalization review and approval from maintenance accounts
- Documentation of review of closing journal entries

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CASE STUDY #1 – “County of Chaos”

Significant Deficiencies Background

Walkthroughs of the billing and tax receipts noted lack of segregation of duties in the property tax area.

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CASE STUDY #1 – “County of Chaos”

Cause:

Becky Biller was the bookkeeper for this small County for 20 years before the County doubled in size and they hired 3 clerk assistants. The 3 clerks file, greet citizens and follow Becky’s instructions.

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Condition: Becky Biller worked till all hours of the night in May to run tax billings and post journal entries for budget and revenue. Becky gets all the mail and sorts it, distributes and post all payments. She writes the deposit and does have one of the other clerks check her math at the end of the day. She takes the deposits. She balances the bank statement to g/l monthly.

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Summary of Significant Deficiency

Same person is in charge of billing, receiving mail, posting payments and making deposits.

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CASE STUDY #1 – “County of Chaos”

Solution:

- First –** Have Becky Biller generate the bills and then have Clerk #1 mail and record the entries
- Second –** Have Clerk #2 get the daily mail, sort, record checks and give to Clerk #3 to post to taxpayer account

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Solution (continued):

- Third –** Have Becky Biller countdown close Clerk #1, Clerk #2 and Clerk #3 drawers and write deposit
- Fourth –** Have Clerk #1 take deposit

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CASE STUDY #2 - #4

See Handouts

