

Being an (Internal) Control Freak can be Valuable!



THE CITY OF COLUMBUS
OFFICE OF MEGAN N. KILGORE,
CITY AUDITOR

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OUR TOPICS...

- ❖ Definition of internal controls and their importance
- ❖ Explanation of how internal controls contribute to our organizational objectives
- ❖ The City of Columbus and our internal controls


I ❤️
Internal
Controls

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TYPES OF INTERNAL CONTROL

- **Preventative** – controls that prevent errors and fraud before they occur
- **Detective** – controls that assist in identifying issues after they have occurred
- **Corrective** – controls that address and rectify identified issues



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COMPONENTS OF AN INTERNAL CONTROL FRAMEWORK

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

IASN 400.40 and COSO, 1992

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➤ CONTROL ENVIRONMENT

- Management’s commitment to creating a culture focused on honesty, integrity and ethical behavior...
“The tone at the top”
- The foundation for all other elements of internal control

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➤ RISK ASSESSMENT

- Identifying and assessing potential risks to our organization’s objectives
- Ongoing process
 - Changes in operating environment, personnel, information systems
 - Growth or decline
 - New programs, new services
- Inherently risky areas
 - Complexity
 - Cash receipts
 - History of prior problems

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➤ CONTROL ACTIVITIES

Policies and procedures that ensure actions are taken to mitigate risks

Preventative controls:

- Segregation of duties
- Access controls (e.g. computer passwords)
- Authorization procedures
- Physical security measures (e.g. locks)
- Documented policies and procedures
- Training and awareness programs
- Pre-approval of transactions
- Automated reconciliation processes
- Vendor due diligence
- Data validation, error checks
- Regular reviews
- Whistleblower hotline



Procedure	Frequency	Responsible

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➤ CONTROL ACTIVITIES (continued)

Detective controls:

- Financial controls
- Inventory controls
- Payroll controls
- IT and data controls
- Procurement controls
- Quality controls
- Fraud detection



Corrective controls:

- Exception reports
- Reconciliation processes
- Transaction verification
- Audit trails
- Error-handling protocols
- Root-cause analysis
- Data validation checks
- Segregation of duties
- Regular audits
- Training and education
- Timely resolution protocols
- Documented policies and procedures



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➤ INFORMATION and COMMUNICATION

Effective communication of control responsibilities and relevant information

- Clear lines of communication
- Communication flows in ALL directions
 - ✓ Including to external parties, as appropriate
- Various forms
 - ✓ Written procedures, memo's, meetings, informal updates
- Documentation – evidenced
 - ✓ Who, What, When, Where, Why



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➤ MONITORING

Regularly assessing the effectiveness of internal controls

- Are the controls designed properly?
- Are the controls operational?
- Has management responded appropriately to identified issues of concern?
If not, what can we change?



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INHERENT LIMITATIONS

Of course...

- Cost vs. Benefit
- Management override
- Risk of collusion



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IMPORTANCE of INTERNAL CONTROLS

- Asset protection
- Accurate financial reporting
- Operating efficiencies
- Compliance with regulations
- Data integrity
- Decision-making
- Transparency
- Audit facilitation
- Ongoing improvements
- Fraud prevention and detection

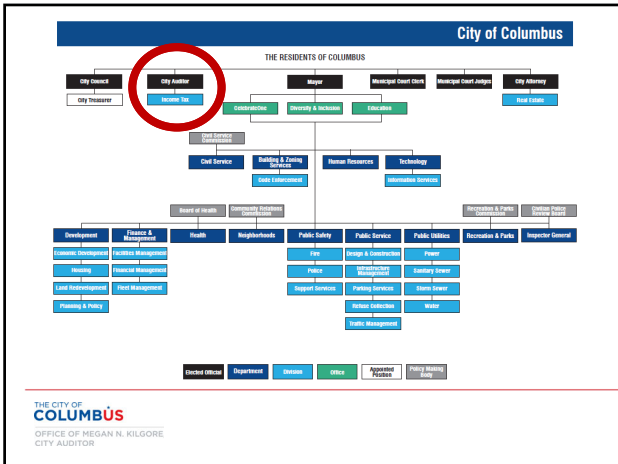


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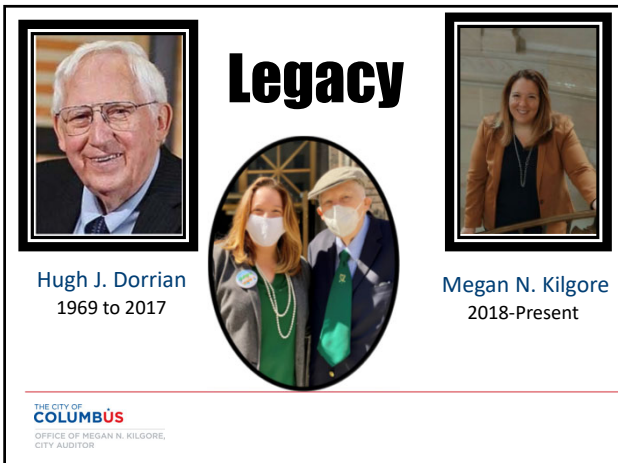
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Columbus 2022


- Square Miles 226.46
- Population 908,386 (MORPC estimate as of 1/1/2023)
- Expenditures \$2.09B
- 293 Funds/Subfunds
- City Employees 9,327
- 525 D365 Users
 - User roles controls access and enforce separation of duties
 - If a user can "receive" a PO, do not have access to generate invoices
 - Some roles are approval and/or inquiry only access

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Accounts Payable 2022

Payroll and related expenses excluded

- 1,225 Expenditure Ordinances approved
- 44,575 – Encumbrances Posted
(Purchase Orders, Budget Reservations)
- 127,031 Invoices Paid
- 66,235 – Payment Warrants
(checks, wires, ACH)
- 1344 - 1099's issued (NEC, Misc, G & S)
(does not include tax refunds)



ACCOUNT ON STOP **BALLOTS**
Signatures PAID TWICE *Unreconciled*
Out Sick

ACCOUNTS PAYABLE
MONTH END *Exchange*
SWEAR WORDS! *Billcrease*
Invoice Missing


NO PO *Failed*
Unidentified *Payment*
No Credit *UNAUTHORISED*
Terms *SUPPLIER*
Unallocated *Reconciliations*
AUDITORS **OVERPAID**
Unmatched PO

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Legislation

- Auditor A&O staff reviews and approves all legislation with a fiscal impact before it can be put on a Council agenda. Look for accuracy, required language, transparency, GL coding and sufficient cash and/or appropriations.
- Auditor posts appropriations and adjustments when approved by ordinances.
 - ✓ Payments require an invoice referencing an encumbrance which requires available appropriations.
 - ✓ System controls prevent encumbering more than is appropriated.
- Receipt of grants require ordinance to accept and appropriate funds.
 - ✓ All grants numbers are set up by Auditor in D365 so that information needed for the SEFA is in the system.
 - ✓ Grant agreements are reviewed when grant numbers are set up and appropriations posted only with council approval.



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Vendor Controls

- **Vendor Portal – Self Service/Maintenance –Signed W9 required**
Reviewed/approved by Auditor to activate
Periodic deactivation of dormant vendors
- **Limited Auditor staff (no department staff) with access to create or change vendor records - outliers**
- **Employee vendors validated with central payroll**
- **Non Vendors – One Time Payments**
- **ACH / Wire – limited use (to date)**
Treasurer verbally validates banking information and must approve the MOP for vendor record to Auditor Vendor contact

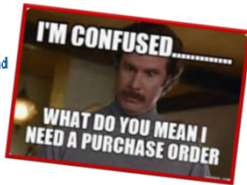


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Encumbrances

- **REQUIRED** - Approved encumbrance before obligation
- **REQUIRED** - Ordinance or Director AND Auditor approval
- **General Budget Reservations (GBR) = vendorless encumbrances**
 - Tied to specific purchase agreement(s) and catalog(s) → purchase requisition → expedited purchase order & invoice approvals.
 - Liquidated by a Purchase Order
 - Liquidated by invoices when no PO is required
- **Purchase Orders –approved by Department Director and Auditor**



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Catalog Purchase Order (PO)



- Conditional decisions in workflow apply automatic Director and Auditor approvals on certain routine goods purchases
- Purchase Requisition (PR) for items from a Purchasing Office contract catalog at agreed upon prices
 - PR references an approved GBR with available funds that is tied to a vendor purchase agreement
 - < \$1,000 auto approved by Director & Auditor
 - > \$1,000 route for Director approval, auto approved by Auditor.
 - Approved PR → PO is auto posted by system
 - GBR balance reduced –Vendor PO encumbrance created

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Purchase Order (PO) Approvals

User selected routing code plus conditional decisions in D365 on data evaluations determines the approval path after Department Director approval:

- City Attorney required to review/approve PO's with non-standard contracts
- Finance Director approves as designee for Council all Food/Beverage purchases (main account)
- Procurement Office approves purchases of goods over \$5,000
- Federal Grants Management team approves use of CDBG funds
- Finance budget staff approves (certain amounts, funds, purposes)



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Purchase Order (PO) Approvals

All PO's not on the "Happy Path" route to Auditor for review, approval and posting

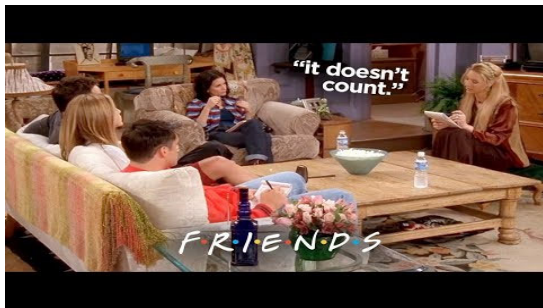
- Validate correct routing code and required approvals present
- Review technical details for accuracy
- Confirm PO matches legislated approvals if contract is ordained
- Confirm GL coding is accurate for purchase (1099 reporting) and funding source is appropriate for purchase
- Review contracts for signatures, period, payment terms, scope of services



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Rules help Control the Fun!



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Invoice Requirements

D365 approved invoice required for any outlay of funds

- Must reference a pre-established approved encumbrance
- Director approves invoice in D365 workflow
- Auditor reviews supporting documents, remit address, amount, conformance with encumbrance and legislation, appropriate coding etc..
- Capital expenditures route to specific auditors
- Invoices over \$50K, for food and beverage, for legal claims and custodial funds payments route to the Auditor Accounts Payable Supervisor.
- System controls - duplicate invoice numbers



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Payment Processing



ONLY Auditor Management able to generate a payment journal

- ✓ Checks – (M,W,F) AP Manager prepares payment journal, A&O Director or Assistant Director reviews and uploads file to the bank through secure portal.
- ✓ Positive pay is included in check upload.
- ✓ Transmission is validated, reports saved and journal posted.
- ✓ Returned mail is handled by staff not involved in the vendor or payment process.
- ✓ Voids or stop pay/reissues – Auditor AP Management only
- ✓ Every day prior day checks are cleared in D365 from bank file by Treasurer

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Payment Processing

- ✓ Wire/ACH journals- (Daily) prepared by AP Manager and distributed to Executive Management for review and to the Treasurer for processing of payments. Payments posted by Auditor after Treasurer confirms.
- ✓ Vendors to be sent ACH or Wire must be preapproved by Treasurer for vendor record to be set up to allow the MOP.
- ✓ ACH/Wire payments –manual process for Treasurer to do is limited as we study ways to ensure controls with increasing volume and automation.

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Petty Cash

- ✓ Petty Cash Funds -only established by ordinance
- ✓ Citywide Petty Cash Guidance provides high level – minimum requirements for appropriate use, reimbursement and reconciliation. Departments have an internal Petty Cash policy.
- ✓ Director must sign forms acknowledging responsibility and designating petty cash custodian.
- ✓ Reimbursement requires reconciliation form and receipts attached to a D365 invoice referencing an encumbering GBR.
- ✓ Invoice is approved by Director Designee and reviewed and posted by Auditor’s office.

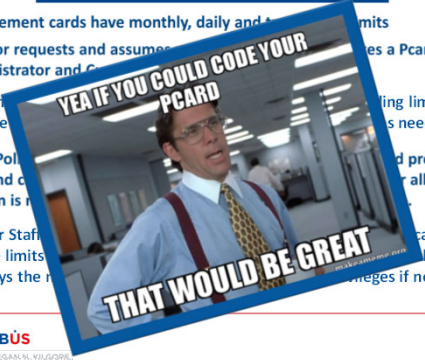


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P-Cards

- Procurement cards have monthly, daily and annual limits
- Director requests and assumes responsibility for Pcard Administrator and C...
- Funds from multiple divisions are used. Spending limit – multiple Pcards may be needed.
- Pcard Policy and prohibited uses and division is...
- Auditor Staff change limits and pays the...



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1099 and IRS Compliance

- ✓ Auditor reviews help ensure vendors who are due a 1099 are marked reportable and have a signed W9 form on file before payment ever issued.
- ✓ Main accounts used on transaction coding drive the 1099 reporting for reportable vendors. PO and invoice reviews by auditor look for potential errors that would affect 1099 reporting all year.
- ✓ 1099 process is tested every autumn in D365, with vendor and IRS Fire system to obtain estimates of number and type of forms required, validate calculations and confirm file will process with IRS
- ✓ Periodically through the year, certain transactions are reviewed for possible 1099 adjustments and known adjustments noted. List of adjustments is compiled and ready to enter as soon as expenditures are cut off for year end, 1099 file ready by mid January.



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Revenue Processing

- Departments enter receipt of revenue (Deposits) in D365 through Point of Sale (POS) system or an Advanced Ledger Entry (ALE)
 - Cash/Checks/Credit card deposits are made to bank electronically, via lock boxes, armored services, deposits at branches, deposits at treasurer's office etc... 24 hours of receipt
- Deposits route to Auditor first for approval of coding and mechanics.
- Deposits route to Treasurer for approval after confirmation of receipt of funds in the bank account.
- D365 A/R billing module
 - Those who enter invoices may not handle payments
 - Corrections to invoices require Director Designee approval
 - Write off of accounts require City Attorney approval when <\$20K or Council Approval if over 20K and Auditor Management records bad debt

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Reconciliation

- Reconcile the accounting records (D365) to Treasurer records daily to verify:
 - Deposits recorded as revenue in D365 are in the bank per the Treasurer
 - Outstanding warrants (ACH, Wire or Checks) per Treasurer matches D365
 - Cash on Treasurer balance sheet matches D365 cash in Treasurer Fund
 - Sum of investments reported by Treasurer equals amount recorded in D365
 - Sum of all cash in Treasurer's fund, matches sum of cash in City Funds.
- Auditor reviews the Treasurer's semi monthly bank reconciliations
 - Bank statements match daily recons/cash in D365, review of any reconciling adjustments, spot verification of two person approvals and recipients.

ACCOUNTANTS ARE CALM AND COMPOSED BECAUSE THEY HAVE STRONG INTERNAL CONTROLS

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Questions? Thoughts?

Thank you for your attention!

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