# Minimizing Fraud by Maximizing Internal Controls

How to Reduce the Risk of Fraud by Optimizing Your Internal Controls Designed for the Number of Business Office Staff You Have Available







### Introductions

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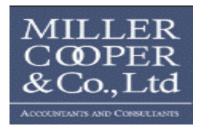
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### **Internal Controls**

Defined – A process, effected by an entity's Board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

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







### Roles

Board – Oversees management's performance and has ultimate responsibility

Management – Primarily responsible

Staff – Executes controls (along with Management)

Auditor – Not part of a District's system of internal controls







### Constraints

Cost – Optimal cost to implement proper controls is beyond a District's budget

Documentation – Districts often don't maintain up-to-date descriptions of key control procedures

Turnover – Controls get lost over time as employees change

Understaffed – Today's crisis does not leave time for control work





### **Elements of Fraud:**



Opportunity

Pressure/Motivation

Rationalization



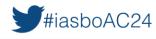




# **Opportunity**

### Poor internal controls:

- –Access to the asset
- –Ability to cover it up
- –Lack of review
- –No one knows how much should be there
- –Improper segregation of duties





### Pressure/Motivation

### **Needs and Wants:**

- –Problems at home
- –Spouse out of work
- –Lavish lifestyle
- -Gambling
- -Drugs







### Rationalization

### Attitudes/Justifications:

- -I was promised a raise / I'm mad at them
- –My child needs this
- -I don't always claim overtime
- -They'll never notice / they have plenty
- -I'm just borrowing







# Segregation of Duties

Authorization to execute a transaction (A)

Recording of the transaction (B)

Custody of or access to the related asset (C)







# Segregation of Duties

### No one person should do all of these:

- Initiate the transaction
- Record the transaction
- Handle assets

- Approve the transaction
- Reconcile balances
- Review reports

Even in the smallest LEAs –at least Two Sets of EYES







# Cash Receipts – ISBE Guide

Example I: Central office with two staff members – <u>Bookkeeper</u> and <u>Secretary</u>.

#### Bookkeeper: (B)

- Enters transaction data into the books from detailed receipts listings
- Reconciles monthly bank statements

#### Secretary: (C)

- Opens mail
- Sorts receipts by source and fund
- Prepares detailed listings of cash receipts by source and fund
- Makes daily deposits of cash receipts
- Compares detailed listing of cash receipts to postings in the accounting records

#### Fiscal Officer: (A)

- Signs detailed cash receipts list prior to deposits and transaction entry into the accounting records
- Periodically compares duplicate deposit slips with cash book
- Reviews and approves monthly bank statement reconciliations

- (A) Authorization
- (B) Bookkeeping
- (C) Custody







# Cash Receipts – ISBE Guide

Example II: Central office with three staff members - Bookkeeper, Position I, and Position II

#### Bookkeeper: (B)

Enters transactions data into the books from detailed receipts listing

#### Position 1: (C)

- Opens mail (along with Position 2)
- Sorts receipts by source and fund
- Prepares detailed listings of cash receipts by source and fund (along with Position 2)
- Prepares deposit slips
- Makes daily deposits of cash receipts

#### Position 2: (C)

- Opens mail (along with Position 1)
- Prepares detailed listing of cash receipts by source and fund (along with Position 1)
- Compares detailed listing of cash receipts to postings in the accounting records
- Reconciles monthly bank statements

#### Fiscal Officer: (A)

- Signs detailed cash receipts list prior to deposit and transaction entry into the accounting records
- Periodically compares duplicate deposit slips with cash book
- Reviews and approves monthly bank statement reconciliations



- (A) Authorization
- (B) Bookkeeping
- (C) Custody



# Cash Receipts – ISBE Guide

Example III: Central office with four staff members - Bookkeeper, Position I, Position 2, and Position 3

#### Bookkeeper: (B)

Enters transaction data into the books from detailed receipts listing

#### Position 1: (C)

- Opens mail (along with Position 2)
- Sorts receipts by source and fund
- Prepares detailed listing of cash receipts by source and fund (along with Position 2)
- Prepares deposit slips
- Makes daily deposits of cash receipts

#### Position 2: (C)

- Opens mail (along with Position 1)
- Prepares detailed listing of cash receipts by source and fund (along with Position 1)
- Compares detailed listing of cash receipts to postings in the accounting records

#### Position 3: (C)

- Prepares monthly bank reconciliations
- Periodically compares duplicate deposit slips with cash book

#### Fiscal Officer: (A)

- Signs documentation (detailed cash receipts list) prior to transaction entry into the accounting records
- Reviews and approves monthly bank statement reconciliations



- (A) Authorization
- (B) Bookkeeping
- (C) Custody





### Cash Disbursements - ISBE Guide

Example I: Central office with staff members – <u>Bookkeeper</u> and <u>Secretary</u>

#### Bookkeeper: (B)

- Enters transaction data into the books
- Reconciles monthly bank statements
- Mails checks
- Prepares bills payable list

#### Secretary: (C)

- Audits invoices and bills for mathematical computation before checks are written (Purchase requisition, purchase order, receiving report, and invoice should be reviewed and all amounts verified.)
- Compiles data for bills payable list
- Prepares checks after board approval of bill list

#### Fiscal Officer: (A)

- Compares checks with the documentary evidence before the signature is affixed
- Directs checks to treasurer for signature
- Reviews and approves monthly bank statement reconciliations

- (A) Authorization
- (B) Bookkeeping
- C) Custody

#### Board of Education/Trustee: (A)

Approve bills payable list







### Cash Disbursements – ISBE Guide

Central office with three staff members - Bookkeeper, Position 1 and Position 2 Example II:

#### Bookkeeper: (B)

- Enters transaction data into the books
- Reviews bank reconciliations
- Prepares bills payable list

#### Position 1: (C)

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- Compiles data for bills payable list
- Mails checks

#### Position 2: (C)

- Prepares checks after board approval of bill list
- Compares checks with the documentary evidence before the signature is affixed
- Reconciles monthly bank statements

#### Fiscal Officer: (A)

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- Directs checks to treasurer for signature
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- Authorization
- Bookkeeping
- Custody

#### Board of education/Trustees: (A)

Approve bills payable list





### Cash Disbursements - ISBE Guide

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- (A) Authorization
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#### Board of Education/Trustees: (A)

Approve bills payable list



### Payroll – ISBE Guide

Example I: Central office with two staff members - Bookkeeper and Secretary

#### Bookkeeper:

- Performs payroll computations
- Enters transaction data into accounting records
- Processes all withholdings
- Compares net check amounts to payroll ledger
- Maintains payroll ledger

#### Secretary:

- Maintains personnel data records (Tax records, authorized withholdings, etc.)
- Reviews payroll calculations
- Prepares checks

#### Fiscal Officer:

- Signs contracts of salaried employees
- Approves hourly wage report
- Compares net check amount to payroll ledger before signature is affixed (on a sample basis)
- Directs checks to treasurer for signature

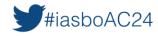
#### Board of education/Trustees:

- Regularly approve employment documents of all personnel
- Set salary amounts or wage rates for all personnel

#### Principals:

- Prepare hourly wage reports
- Distribute payroll checks







# Payroll – ISBE Guide

Example II: Central office with three staff members - Bookkeeper, Position 1 and Position 2

#### Bookkeeper:

- Enters transaction data into accounting records
- Compares net check amounts to payroll ledger

#### Position 1:

- Reviews payroll computations
- Prepares checks

#### Position 2:

- Performs payroll computations
- Processes all withholdings
- Maintains payroll ledger
- Maintains personnel data records (Tax records, authorized withholdings, etc.)

#### Fiscal Officer:

- Signs contracts of salaried employees
- Approves hourly wage reports
- Compares net check amount to payroll ledger before signature is affixed (on a sample basis)
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#### Principals:

- Prepare hourly wage reports
- Distribute payroll checks



### Investments - ISBE Guide

Example: Central office with two or more staff members - Bookkeeper and Secretary

#### Bookkeeper: (B)

- Performs periodic analysis of cash balances to determine surplus cash on hand and feasibility of investments
- Enters investment transaction data into books
- Maintains subsidiary investment records
- Performs periodic reconciliation of detailed investment records with control subsidiary ledger
- Prepares monthly investment report

#### Secretary: (C) or Position 1 (2, 3, 4, etc.)

- Receives funds from the sale of investments and makes deposits
- Prepares checks for the purchase of investments
- Performs periodic review of investment subsidiary ledger
- Receives interest on investments and makes deposits

#### Fiscal Officer: (C)

- Performs periodic analysis of cash balances to determine surplus cash on hand and feasibility of investments
- Approves investment transactions
- Acts as investment custodian
- Purchases and sells investments (after board approval)
- Appraises investments (monthly)
- Develops investments policies



- (A) Authorization
- (B) Bookkeeping
- C) Custody

#### Board of Education/Trustees: (A)

Approve investment policies



### Petty Cash/Revolving Account – ISBE Guide

Example: Central office with two or more staff members - Bookkeeper and Secretary

#### Bookkeeper: (B)

- Reviews petty cash vouchers
- Prepares voucher for reimbursement
- Prepares reimbursement check (payable to petty cash fund custodian)
- Enters data (from reimbursement voucher) into accounting records

#### Secretary/Principal: (C)

- Serves as the petty cash fund custodian
- Reviews and countersigns petty cash vouchers
- Deposits reimbursement check to replenish petty cash fund

#### Fiscal Officer: (A)

- Approves voucher for reimbursement
- Signs check
- Conducts surprise petty cash counts



- (A) Authorization
- (B) Bookkeeping
- (C) Custody

#### Board of Education/Trustees: (A)

- Fix dollar amount of Imprest fund
- Review expenditures from fund (on detailed bill list, when fund is reimbursed)



### Questions ... ??

We thank **YOU** for your time!







### Presenters:

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