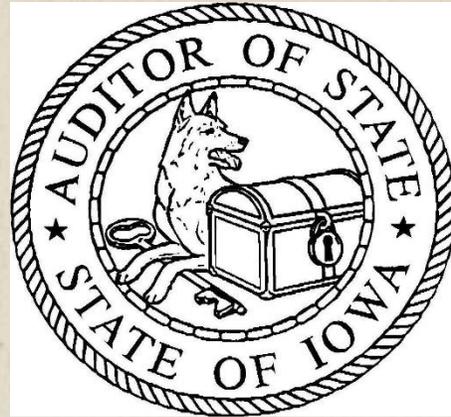


STUMBLING BLOCKS TO A CLEAN FINANCIAL REVIEW



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EXTENSION COUNCIL CONFERENCE
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TODAYS TO DO LIST

- How's your internal controls?
- Cash in bank.
- Cash receipts.
- Payroll
- Disbursements
- Credit Cards – What Possibly Could Go Wrong?
- Preparing for the review.
- Other items.
- Potential findings.



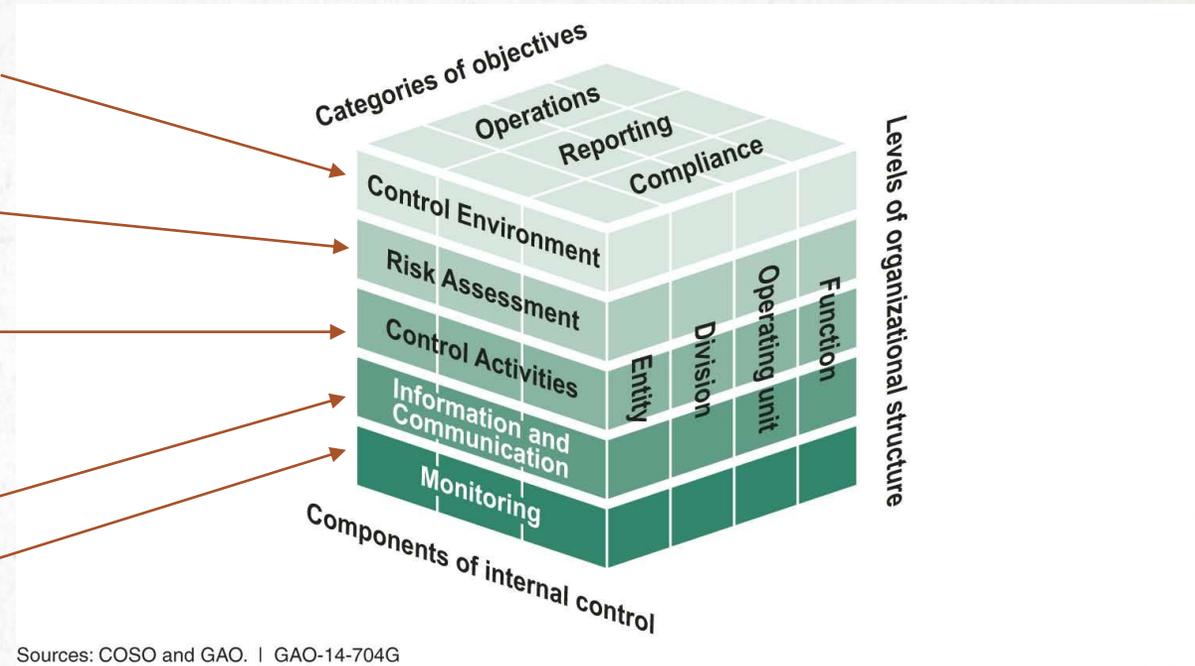
HOW'S YOUR INTERNAL CONTROLS

- What Exactly Are Internal Controls
 - A PROCESS – effected by:
 - Management
 - Other personnel
 - Those charged with governance
 - Designed to provide reasonable assurance
 - That Objectives will be achieved



WHAT EXACTLY ARE INTERNAL CONTROLS

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



SEGREGATION OF DUTIES

QUESTION:

If segregation of duties is not practical because of limited personnel or other factors, then what?

SEGREGATION OF DUTIES

ANSWER:

Management designs alternative control activities to address the risk of fraud, waste, or abuse.

- Board oversight/review
 - Other staff (non-financial or other county offices)
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CASH IN BANK- CONTROLS

- Reconciliations
- Independent reviews
- Depository resolution
- Outstanding checks



CASH IN BANK- WHAT CAN GO WRONG

- Reconciliations are not completed or are not independent.
 - Adequate Independent reviews are not performed.
 - Depository resolutions are incomplete or are not sufficient.
 - Old checks remain on the outstanding list.
-

CASH RECEIPTS - CONTROLS

- Duties are segregated (collection, deposit preparation, recording, reconciliation)
- Receipts deposited intact and timely
- Restrictive endorsement immediately upon receipt.
- Receipt issuance process.
- Segregation of Duties log.

The image shows four receipt forms stacked vertically in a spiral-bound notebook. Each form is titled 'RECEIPT' and includes a 'No.' field with the number 123455, 123456, 123457, and 123458 respectively. The forms are designed for recording cash receipts, with fields for 'RECEIVED FROM', 'DATE', 'AMOUNT', and 'TO'. The forms are arranged in a column, with the spiral binding on the left side.

CASH RECEIPTS – WHAT CAN GO WRONG

- Inadequate segregation of duties.
 - No receipt books/receipting process.
 - Initial listing is not prepared at least on a test basis.
 - Lack of controls for receipts received in the mail.
 - SOD log is not completed and/or reviewed.
-

PAYROLL - CONTROLS

- Segregation of duties.
- Authorization
- Timesheets
- Timesheet approval
- Good personnel records



PAYROLL – WHAT CAN GO WRONG

- Authorization includes % or \$ increase and not the approved amount.
 - Timesheets are not maintained.
 - Timesheets are not approved.
 - Errors when comparing timesheets to payroll
-

DISBURSEMENTS – CONTROLS

- Segregation of duties
- Check preparation, check signing.
- Approval
- Sufficiently supported (invoices).
- Unused and void check controls.



DISBURSEMENTS – WHAT CAN GO WRONG

- Invoices are not maintained/lost.
 - Invoices are not adequately approved for payment.
 - Unused checks are not controlled.
 - Checks are signed in advance.
 - Questionable disbursements.
-

CREDIT CARDS - CONTROLS

- Credit card policy.
- Access to credit cards.
- Supported by actual receipt.
- Approval for charges.
- Reconciliation between statement and receipt slips.
- Personal charges not permitted.



CREDIT CARDS - CONTROLS

- At a minimum what should be in a policy?
 - Who controls the credit card(s)
 - Who is authorized?
 - What is authorized?
 - Require supporting receipts.
 - Reconcile monthly statements.
 - Repercussions of not complying.



CREDIT CARDS – WHAT CAN GO WRONG

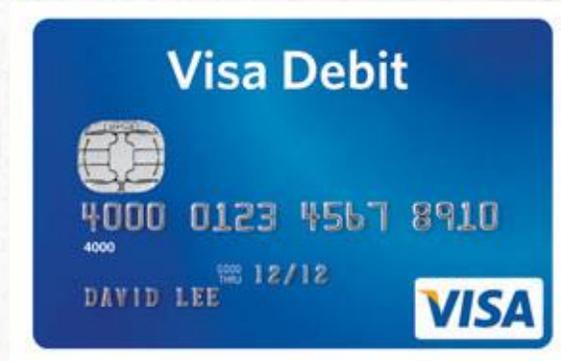
- Lack of approved policy by Board.
 - Credit card receipts are discarded/lost.
 - Inappropriate charges.
 - Personal charges – reimbursements by employee.
 - Not paid timely resulting in interest/fees.
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CREDIT CARDS – WHAT CAN GO WRONG

- If a purchase could be viewed as questionable, document why the public should pay for it.
 - This public purpose should be documented in the Council minutes. Use of terms such as “meets public purpose” is not sufficient. Document how it meets public purpose.
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HOW ABOUT DEBIT CARDS - NO

- Offer limited ability to set guidelines for access.
- Limited, if any repercussions for fraudulent transactions.
- No process for prior approval of purchases.



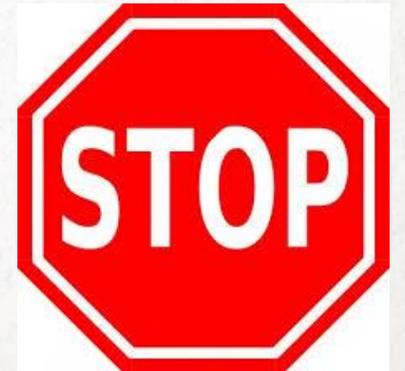
PUBLIC PURPOSE

- Lots of questions around donations and disbursements with questionable public purpose from all types of entities.
- Article III, Section 31 of the Iowa Constitution states, in part, “...no public money or property shall be appropriated for local, or private purposes...”
- Past advice from the AG’s office has concluded a governmental body may not donate public funds to a private entity, even if the entity is established for charitable or educational purposes....
- Questionable Disbursements - AG Opinion 79-4-26 dated April 25, 1979.
 - Line to be drawn is very thin.
 - Subject to close scrutiny.
 - Infrequent and modest in cost.
 - Governing body must document.



DOCUMENTATION

- If the local newspaper calls you, you may not have documented public purpose.
- The burden of documentation falls on the governing body.
 - Approval should be prior to the transaction/event occurring.



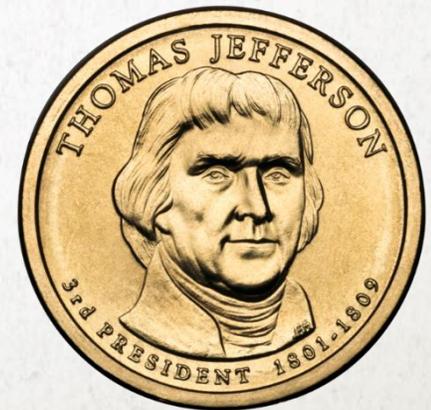
DOCUMENTATION



- Council minutes should:
 - Clearly document how the public purpose is served.
 - Don't use ambiguous language. "A public purpose is served" – not OK.
 - Minutes should elaborate and explain how the planned expenditure would be for a public purpose.
- Could establish a policy to clearly define ongoing or recurring expenses that would meet a public purpose. Clearly state:
 - Proper circumstances
 - Proper motives.
 - Frequency.
 - Does not relieve the Council of ensuring expenditures meet public purpose. Could still be questioned.

WHO SAID IT?

- “The same prudence which in private life would forbid our paying our own money for unexplained projects, forbids it in the dispensation of the public moneys.”



PREPARING FOR THE REVIEW

- Notification by AOS of the upcoming review.
- Introduction and “to do” list.
- Entrance conference
- Take down some notes on your internal controls (who does what).
- Ask questions to clarify requests.



“TO DO” LIST (NOT ALL INCLUSIVE)

- Bank statements from July through the following July (13 months).
- Selected bank reconciliations and support.
- Segregation of duties log file.
- Signed Council minutes including agendas for the fiscal year.
- Published Operating Report and proof of publication.
- Balance sheet at June 30.
- Depository resolution.
- Request the YTD general ledger report from the County Treasurer showing the amount of taxes remitted over to the Office. This should equal the Operating Statement.



“TO DO” LIST (NOT ALL INCLUSIVE)

- Status of 4-H clubs.
- Selected check registers (voucher report).
- Selected payroll registers.
- Approved budget, amendments and proof of publications.
- Treasurer’s bond.



OTHER ITEMS

- Council minutes
 - Signed
 - Meeting was preceded by proper notice (Chapter 21.4)
 - Sufficient to show votes (Chapter 21.3)
 - Closed sessions (Chapter 21.5)
 - Must cite specific exemption – has to be one of the reasons noted in Chapter 21.5
 - By affirmative roll call of either 2/3 of the members or all of the members present.
 - Treasurers Bond
 - Required by Chapter 176A.14(5)
 - 4-H Accounts
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POTENTIAL FINDINGS

- Internal control log not completed/reviewed.
- Independent review of bank reconciliations are not signed and/or dated – timeliness
- Depository resolution was exceeded.
- Approved wages increased as a percentage and not an hourly rate.
- No evidence timesheets were approved.
- Board minutes are not signed.
- Some 4-H accounts are not included in the Ag Extension Office.
- Credit card statements review not documented.



THANK-YOU

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