



**Office of Children's Services**  
Empowering communities to serve youth

# **CSA PROGRAM AUDITS: Understanding Internal Controls in CSA Programs**

Presented by  
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## Introduction: Purpose and Objectives

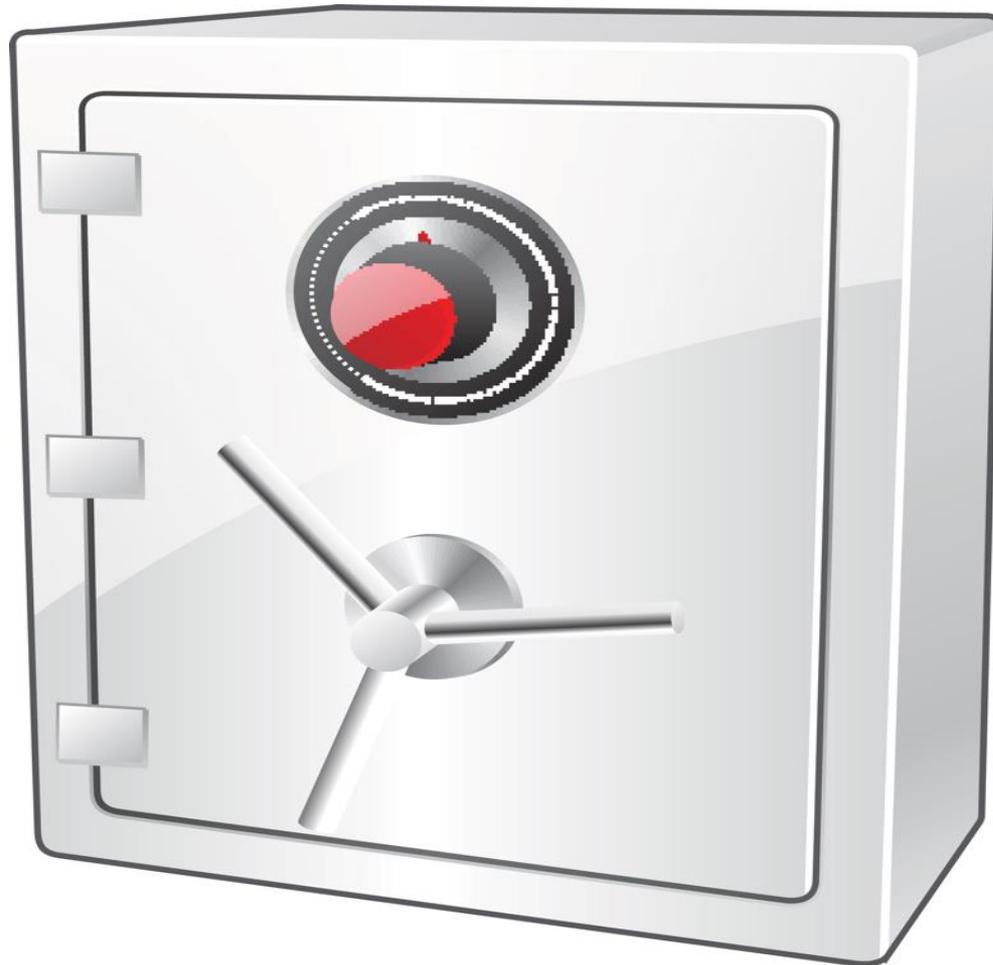
### **Purpose:**

To educate participants on the definition of internal controls, the organizational responsibility for establishing an internal control structure, and the various types of control activities.

### **Objective:**

In a classroom setting, participants will recognize their role in the internal control structure within their locally administered CSA program.

# Understanding Internal Controls in CSA



## Understanding Internal Controls in CSA

# *What are Internal Controls?*

*Internal controls are steps taken to provide reasonable assurance that the following objectives are met:*

- *Assets are safeguarded,*
- *Reliable information/data,*
- *Effective and efficient operations, and*
- *Compliance with applicable laws, regulations, policies, procedures, contracts, etc.*

## Understanding Internal Controls in CSA

# *Fundamental Concepts of Internal Controls*

1. *Internal Controls are processes, a means to an end, not an end in itself.*
2. *Internal Controls are effected by people, not merely policy manuals and forms but people at every level of the organization.*
3. *Internal Controls are geared to the achievement of objectives.*
4. *Internal Controls can be expected to provide only reasonable assurance, not absolute assurance.*

## Understanding Internal Controls in CSA

### *Reasonable Assurance*

*The cost of achieving  
internal control objectives  
should not exceed its benefit*



## Understanding Internal Controls in CSA

# *CATEGORIES of CONTROLS*

### *Hard Controls*

- *Policy/procedures*
- *Organization structure*
- *Formal processes*
- *Centralized decision making*

### *Soft Controls*

- *Competence*
- *Trust*
- *Shared values*
- *Strong leadership*
- *High expectations*
- *Openness*
- *High ethical standards*

## Understanding Internal Controls in CSA

*Who is responsible for compliance with Internal Controls?*

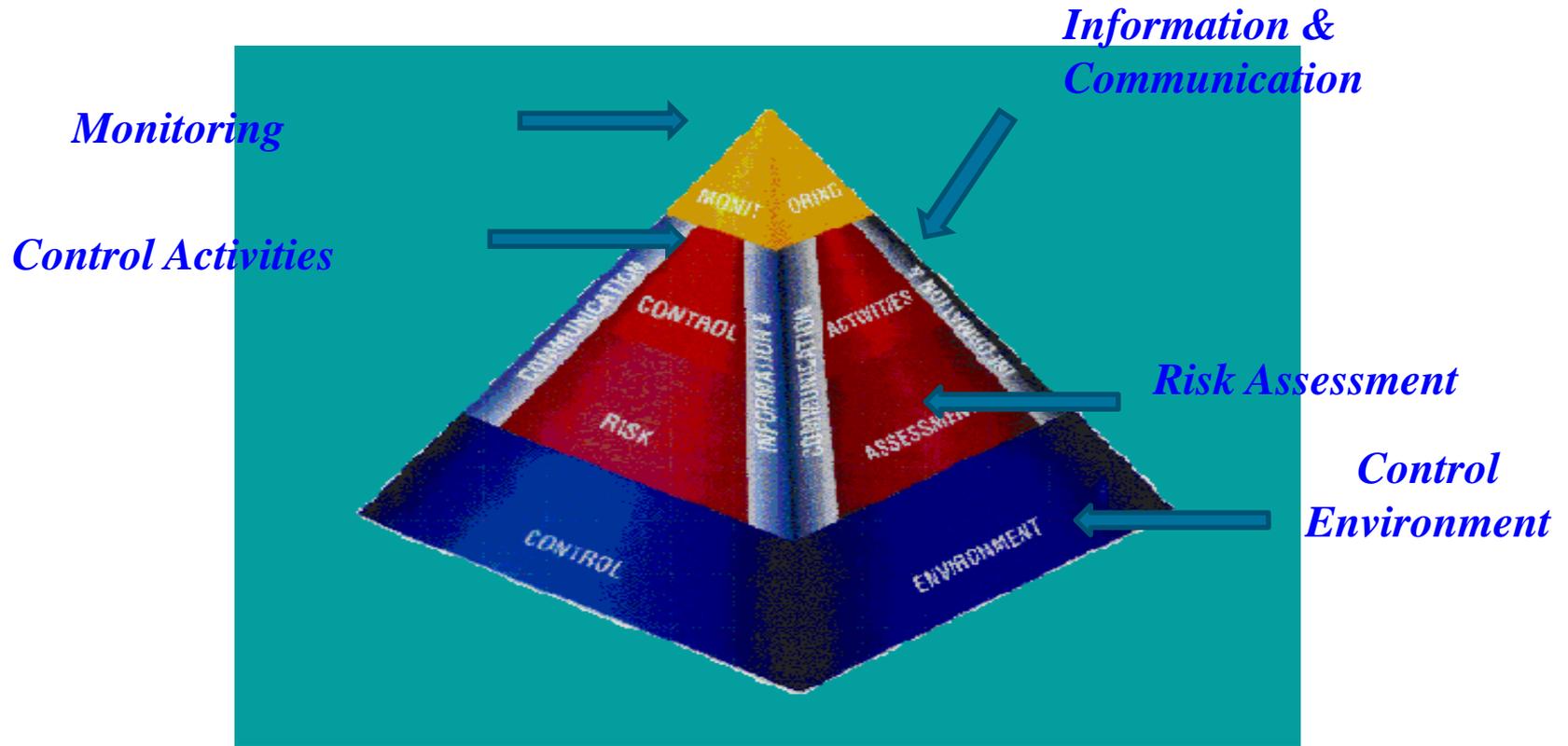


*All STAKEHOLDERS are responsible for compliance with Internal Controls.*

# Understanding Internal Controls in CSA

## *Five Components of Internal Controls*

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## Understanding Internal Controls in CSA

### *What is the Control Environment?*

*Atmosphere reflecting underlying CSA values as directed and communicated by the Community Policy and Management Team. Examples:*

- *Code of Ethics*
- *Mission Statement*
- *Goals and Objectives*
- *Strategic Plan/ Long Range Plan*

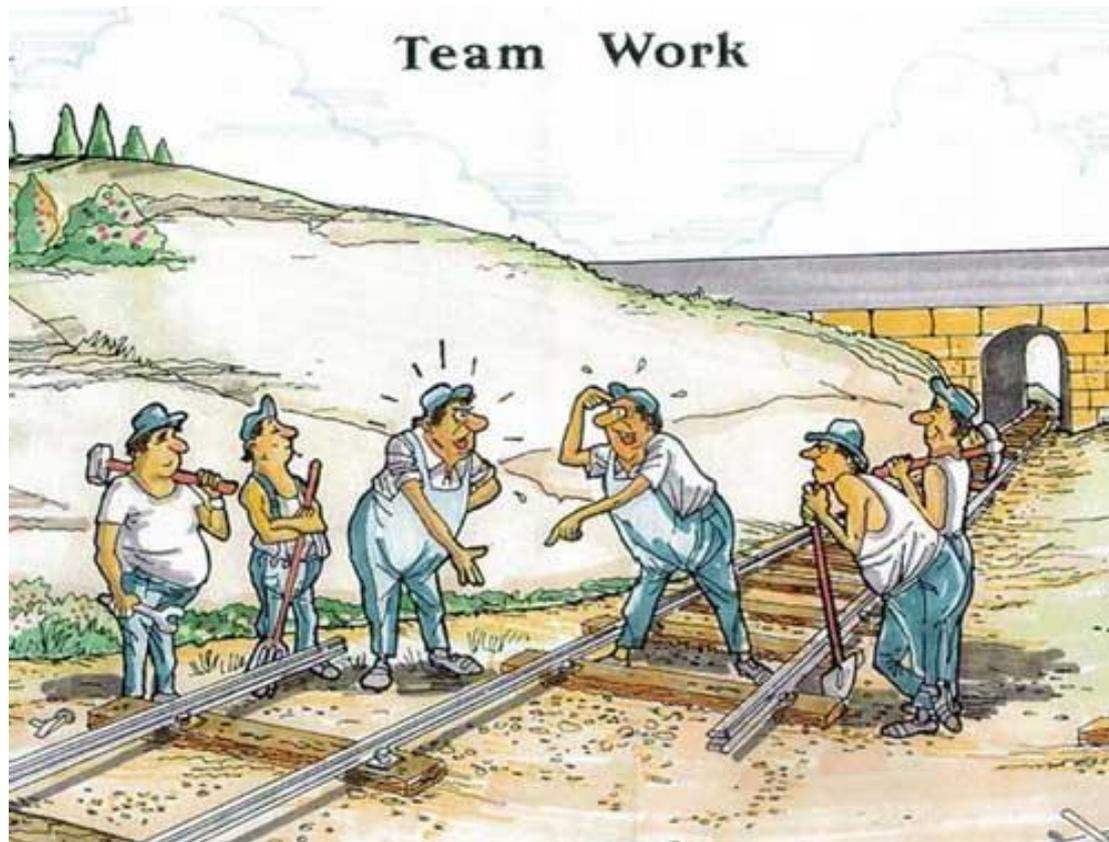
## Understanding Internal Controls in CSA

### *Organizations with an Effective Control Environment*

- *Sets a positive “tone at the top”*
- *Hires and retain competent people*
- *Fosters integrity and control consciousness*
- *Formalize and clearly communicates policies and procedures resulting in...*

# Understanding Internal Controls in CSA

## *Shared Values and Teamwork*



# Understanding Internal Controls in CSA

## *What is a Risk Assessment?*

*The identification and analysis of relevant risks that may prevent an entity from achieving objectives, includes three primary components:*

- ***Identification:*** *Significant condition resulting from no action being taken, the wrong action being taken, or the right action not taken in a timely manner . Instruments to aid the process may include community needs assessment required for social services and court services grant applications, CSA Gap Survey, local agency utilization management reports, etc.*
- ***Analysis:*** *Assessing the likelihood of occurrence and potential impact to the program.*
- ***Management:*** *Steps taken to prevent losses or reduce the impact of a loss occurring*

# Understanding Internal Controls in CSA

## *Analysis of Risk*

**THREAT**



\*

**EXPOSURE**



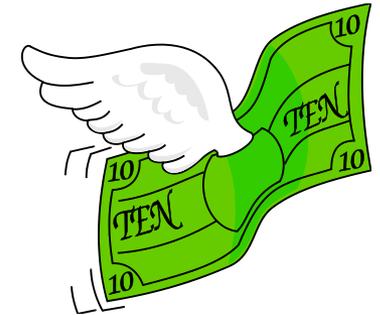
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**RISK**



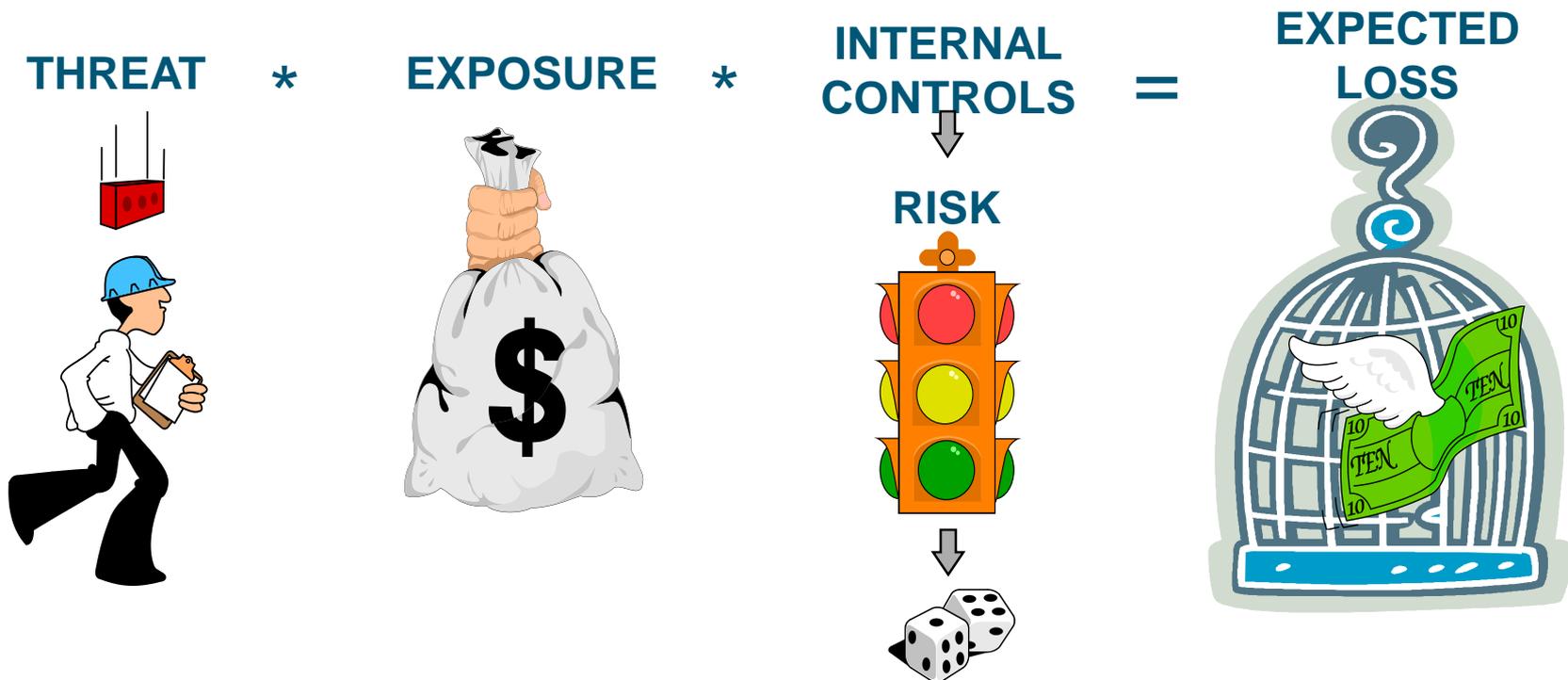
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**EXPECTED  
LOSS**



# Understanding Internal Controls in CSA

## *Management of Risk*



# Understanding Internal Controls in CSA

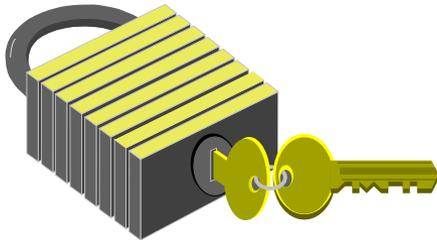
## *10 Critical Organizational Risks*

- 1. Financial*
- 2. Legal Liability*
- 3. Regulatory Compliance*
- 4. Organizational Image*
- 5. Organization-Specific*
- 6. Data Integrity and Reliability*
- 7. Confidentiality of Data*
- 8. Safeguarding Proprietary Data*
- 9. Contingency Planning*
- 10. Operations*

# Understanding Internal Controls in CSA

## *What are Control Activities?*

- *Policies, procedures, and practices for managing significant risk that assures management's directives are carried out.*
- *Types of Control Activities*



**Preventive**



**Detective**



**Corrective**

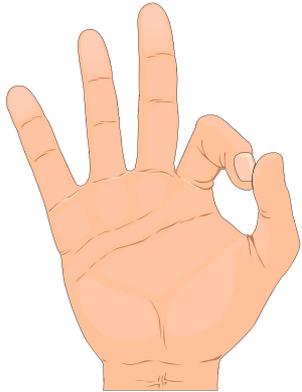
# Understanding Internal Controls in CSA

## *Examples of Control Activities*

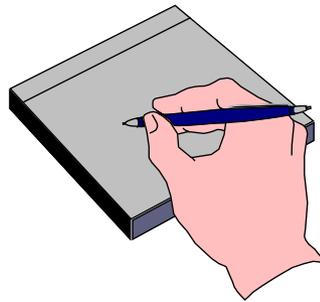
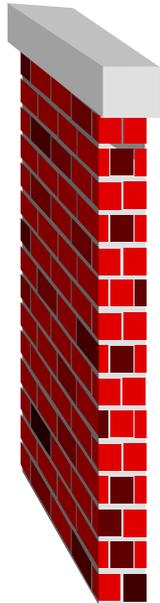
- ***Preventive Controls:***
  - *Segregation of duties*
  - *Proper authorization (verification and approvals)*
  - *Limiting access to files and systems*
  
- ***Detective Controls:***
  - *Performance reviews*
  - *Exception Reports*
  - *Reconciliation*
  
- ***Corrective:***
  - *Corrective Action Plans*
  - *Recoupment of Funds*
  - *Legal Action*

# Understanding Internal Controls in CSA

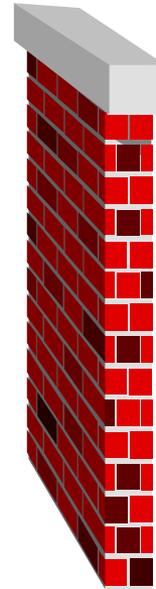
## *Segregation of Duties*



**Authorization**



**Recording**



**Custody**

## Understanding Internal Controls in CSA

***Verification:*** Be an **A-C-E** reviewer of reports

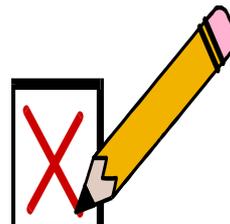
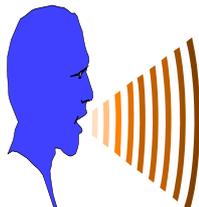
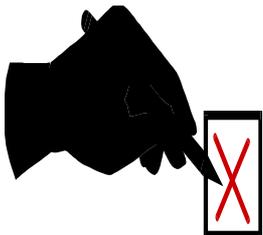
- *Is the information **A**ccurate?*
- *Is the information **C**omplete?*
- *Are the operations **E**fficient?*

# Understanding Internal Controls in CSA

## Approvals

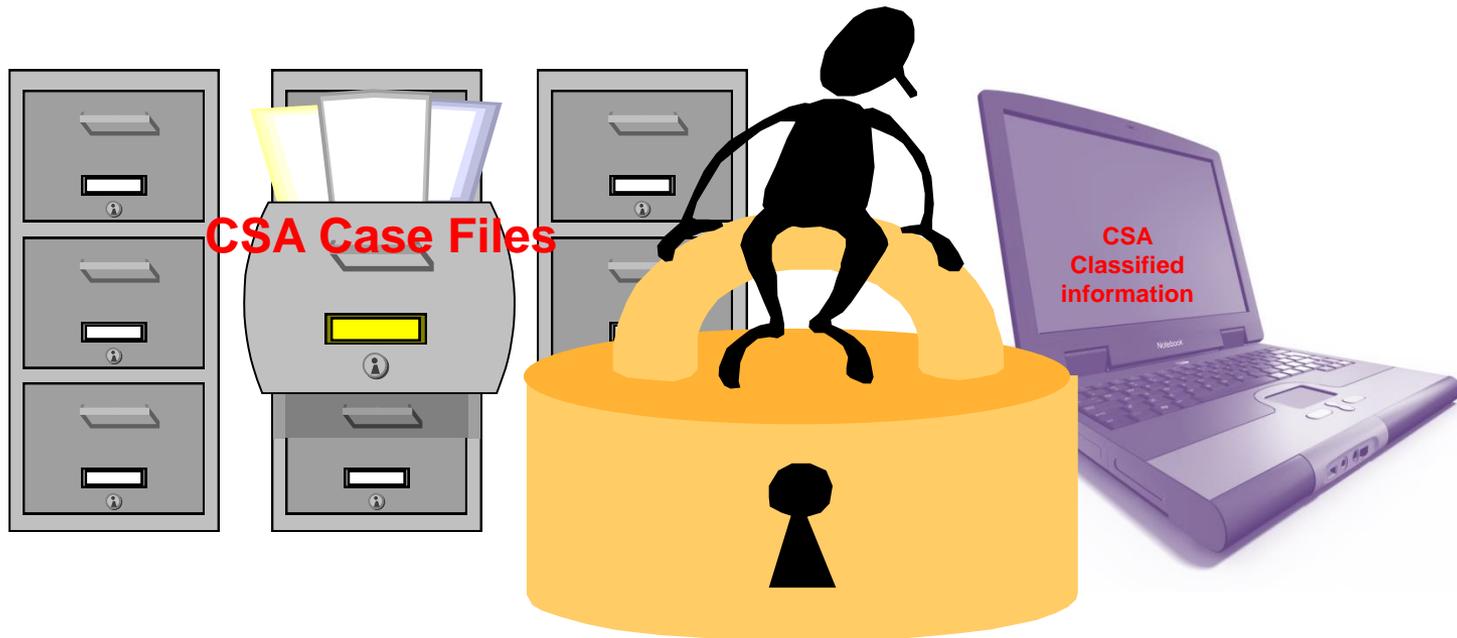
*Certain activities or transactions require supervisor approval.*

- *Depends on the risk assessment.*
- *High risk activities should be approved by senior management.*
- *Approval means that the approver has reviewed the supporting documentation and is satisfied that the transaction is appropriate.*



# Understanding Internal Controls in CSA

*Security of Assets- restrict access to assets and information to authorized personnel*



# Understanding Internal Controls in CSA

## *Review of Operating Performance*



Reconciliations

## Understanding Internal Controls in CSA

### *What is Information and Communication?*

*Systems for capturing and communicating relevant information in a timely manner:*

- Maintain clear and open lines of communication*
- Understand your role in the internal control system*
- Move important information to the top of the organization*

# Understanding Internal Controls in CSA

## *What is Monitoring?*

- *The assessment of internal control performance over time to determine whether internal control is adequately designed, properly executed, and effective.*
- *Ongoing supervisory activities lessen the need for separate evaluations*
- *Periodic evaluations (self-assessment, peer review, internal/external audits)*

### Examples of Monitoring Activities

CSA Coordinator	FAPT	CPMT
Monitors own work to ensure it is being done properly; complying with internal /external policies and procedures, correct errors identified, detect and communicate problems with existing policies and procedures; and report changes in their immediate internal and external environments	Monitoring focus should be on ensuring that control activities are functioning properly; the families being served are accomplishing goals; communication is open and sufficient; and risks and opportunities are identified and properly addressed.	Monitoring responsibilities should cover the review of how well controls are functioning fiscally and programmatically for the local CSA program. Therefore, the CPMT shall manage the cooperative effort in each community to better serve the needs of troubled and at-risk youths and their families and to maximize the use of state and community resources.



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# Understanding Internal Controls in CSA



# Understanding Internal Controls in CSA

## *Internal Control Weakness vs. Non-Compliance Observation* *What's the Difference?*

Internal Control Weakness	V E R S U S	Non-Compliance Observation
<p>Ineffective processes that may adversely impact the program's ability to achieve desired strategic, financial, operational, reporting, compliance, and stewardship objectives.</p>		<p>An organization's failure to fulfill specific requirements as stated in established laws, regulations, policies, and procedures.</p>

## Understanding Internal Controls in CSA

### *Internal Control Weakness vs. Non-Compliance Observation*

#### Important to Remember

Non-compliance itself can be an internal control weakness.

## Understanding Internal Controls in CSA - Summary

- *Internal controls are steps taken to provide reasonable , not absolute, assurance that organizational objectives are achieved.*
- *Cost of achieving the internal control objectives should not exceed its benefit*
- *All STAKEHOLDERS are responsible for compliance with internal controls*
- *Five components of Internal Controls:*
  - *Control Environment*
  - *Risk Assessment*
  - *Control Activities*
  - *Information and Communication*
  - *Monitoring*

# Understanding Internal Controls in CSA



# CSA Program Audits

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