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CSA PROGRAM AUDITS:
Understanding Internal Controls and Strategic Planning in CSA Programs

Presented by
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March 12, 2015

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Introduction: Purpose and Objectives

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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.

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Understanding Internal Controls in CSA

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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.

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What are Internal Controls: Fundamental Concepts

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.

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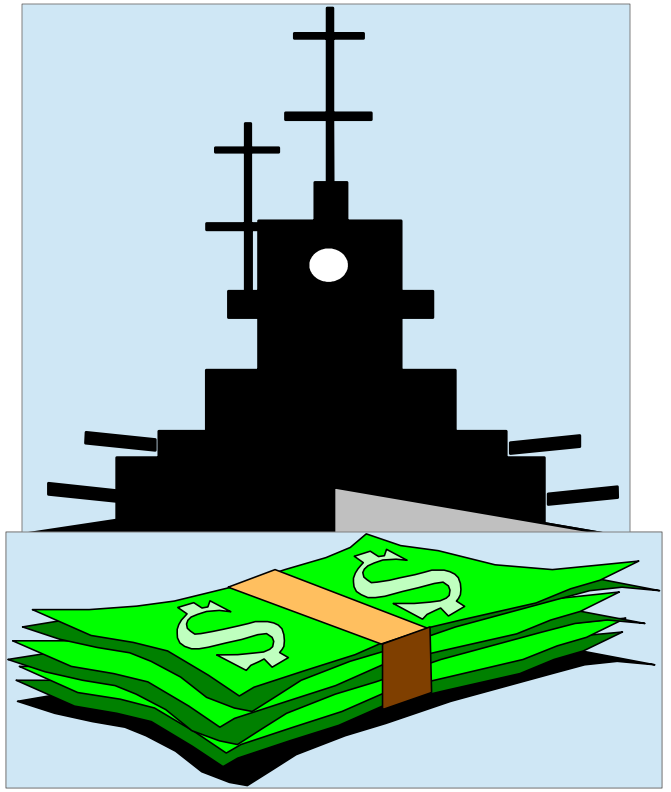
Reasonable Assurance

Cost of achieving the internal control objectives should not exceed its benefit



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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

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Who is responsible for <u>compliance</u> with Internal Controls?

<u>All STAKEHOLDERS</u> are responsible for compliance with internal controls.

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Five Components of Internal Controls

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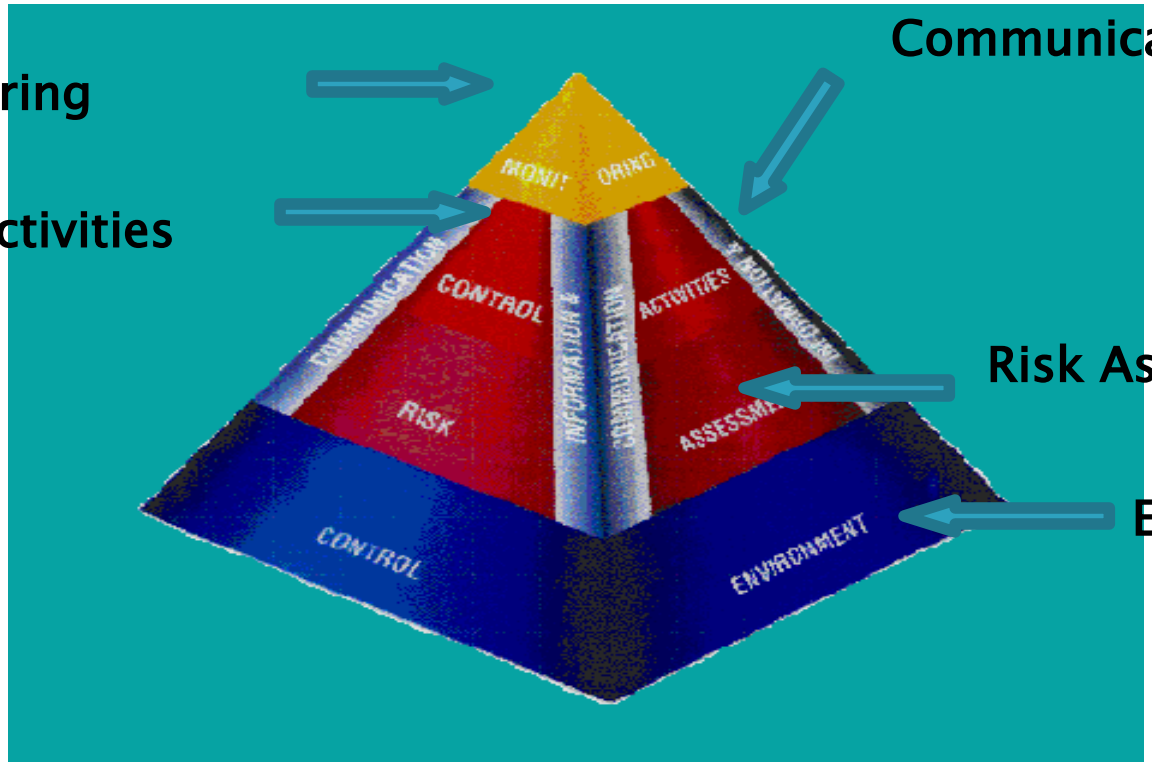

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What is the Control Environment?

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Control Environment

Community Policy and Management Team

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Control Environment

Organizations with an Effective Control Environment

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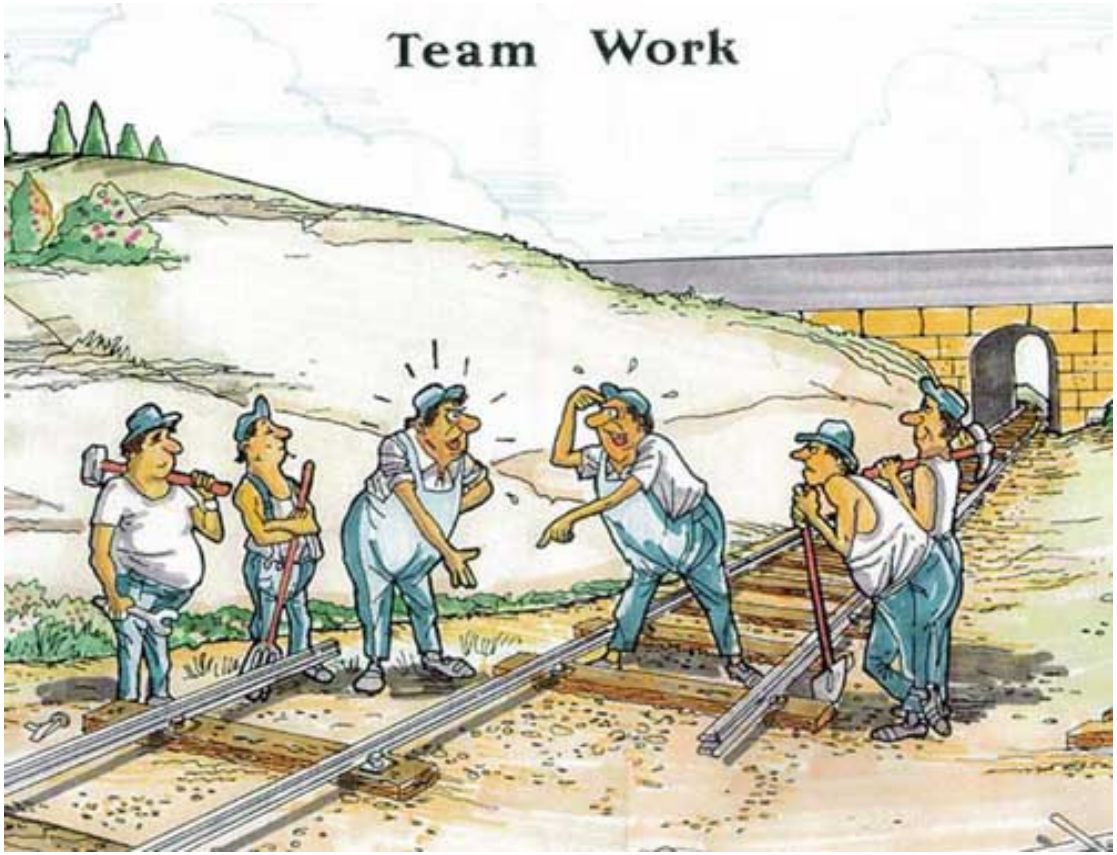
Control Environment
Shared Values and Teamwork



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What is a Risk Assessment?

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Risk Assessment

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Risk Assessment

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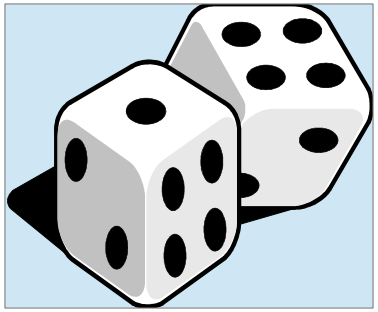
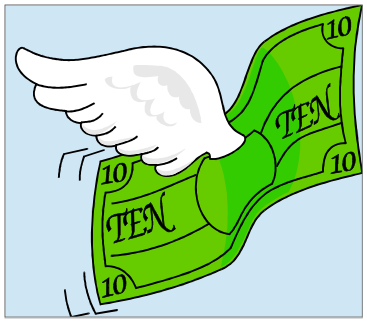
Analysis of Risk

THREAT * EXPOSURE * RISK = EXPECTED LOSS





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Risk Assessment

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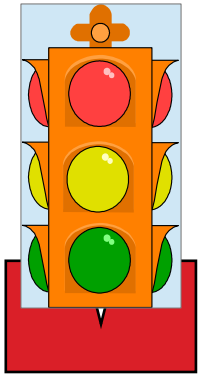
Management of Risk

THREAT * EXPOSURE * INTERNAL CONTROLS = EXPECTED LOSS

RISK



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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

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What are Control Activities?

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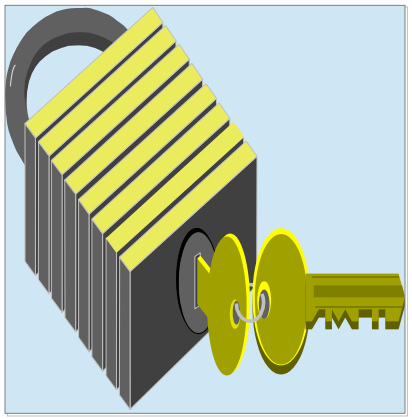
Control Activities

Types of Internal Control



Preventive

Detective

Corrective

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Control Activities

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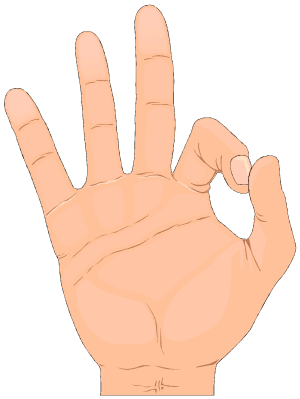
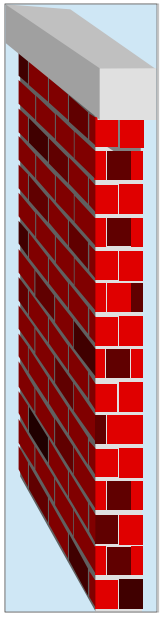
Control Activities

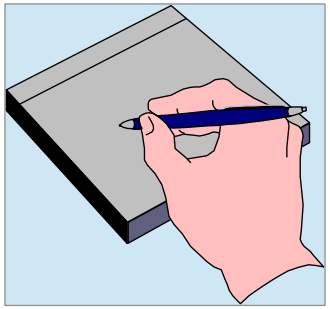
Control Activities

Segregation of Duties – Preventive

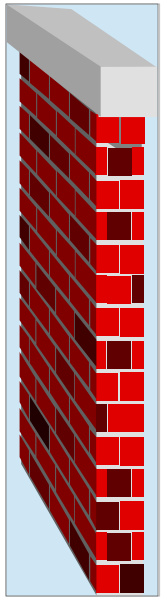


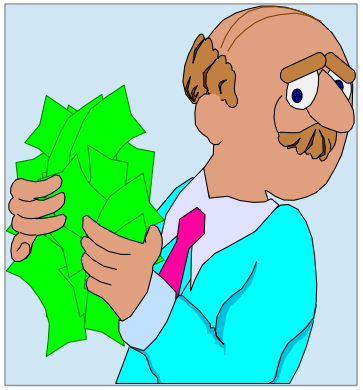
Authorization





Recording





Custody

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Control Activities–Preventive

What needs to be approved?

- 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.

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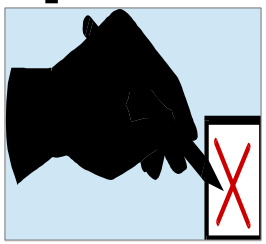
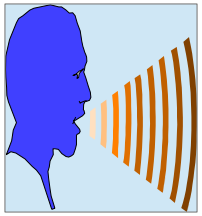
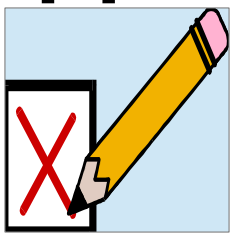
Control Activities–Preventive

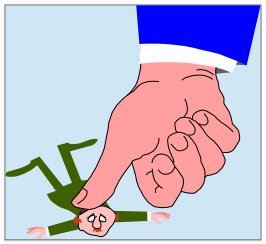
Approvals

Certain activities or transactions require supervisor approval.









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Control Activities– *Verification* Preventive

Be an A-C-E reviewer of reports

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

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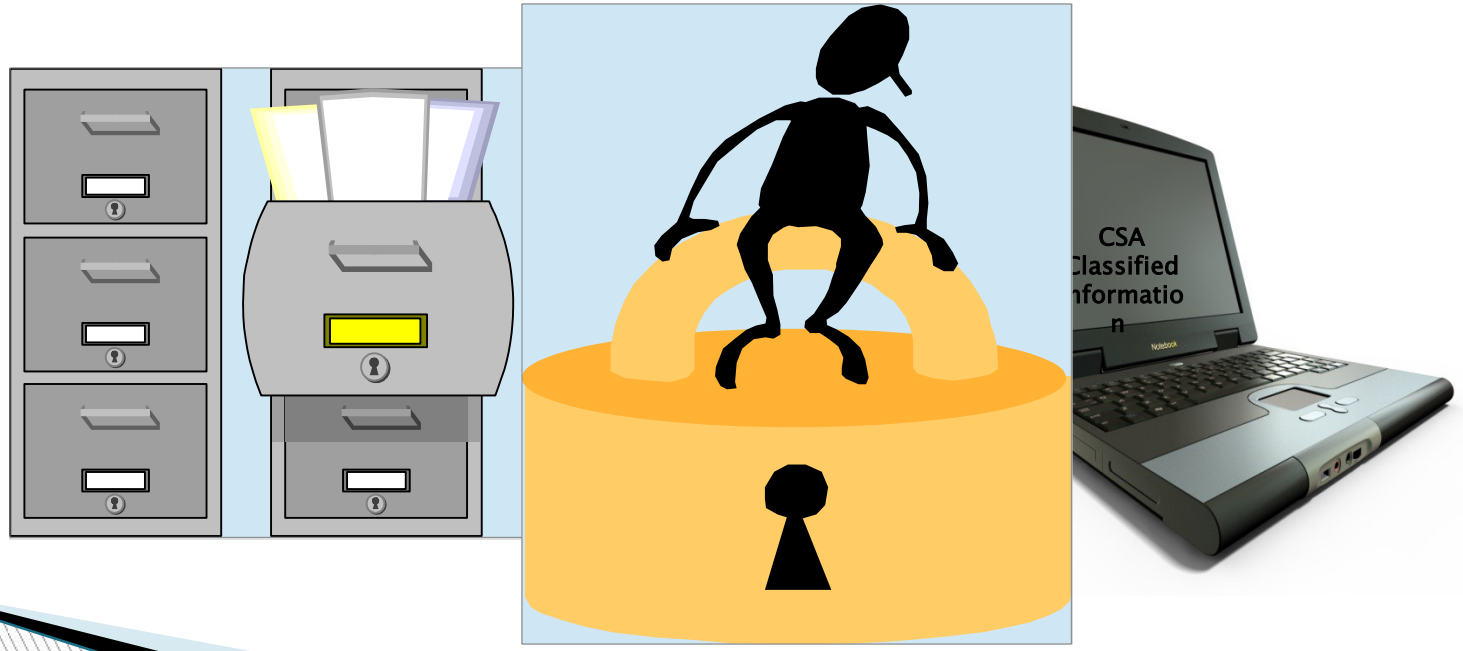
Control Activities- Preventive

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



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Control Activities- Detective

Review of Operating Performance

Reconciliations

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What is Information and Communication?

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What is Monitoring?

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Monitoring

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Monitoring

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Monitoring

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Recent Audit Observations

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Recent Audit Observations

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

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

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Internal Control Weakness vs. Non-Compliance Observation

Important to Remember

Non-compliance itself can be an internal control weakness.

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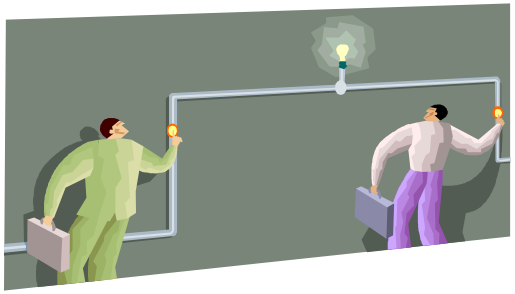
SESSION



SUMMARY

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Summary – Internal Controls

- 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

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