CSA PROGRAM AUDITS: Understanding Internal Controls in CSA Programs

Presented by
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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
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.
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.
Reasonable Assurance

Cost of achieving the internal control objectives should not exceed its benefit
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
Who is responsible for compliance with Internal Controls?

All STAKEHOLDERS are responsible for compliance with internal controls.
Five Components of Internal Controls

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What is the Control Environment?

- Atmosphere reflecting underlying corporate values
  - Provides structure and discipline
  - Foundation for all other components of internal controls
Control Environment

*Community Policy and Management Team*

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

Organizations with an Effective Control Environment

1. Sets a positive “tone at the top”
2. Hires and retain competent people
3. Fosters integrity and control consciousness
4. Formalize and clearly communicates policies and procedures resulting in...
Control Environment
Shared Values and Teamwork
What is a Risk Assessment?

- The identification and analysis of relevant risks that may prevent an entity from achieving objectives.
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Risk Assessment

• Analysis of risks related to achieving agency objectives

• Identification of Risk – Significant condition resulting from no action being taken, the wrong action being taken, or the right action not taken in a timely manner

• Analysis of Risk – analyzing the identified risk and its likelihood of occurrence and its impact to the organization
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Risk Assessment

• Analysis of risks related to achieving agency objectives
  • Management of Risk – steps taken to prevent losses or reduce the impact if a loss occurring

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Analysis of Risk

THREAT * EXPOSURE * RISK = EXPECTED LOSS
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Risk Assessment

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• Tools to identify risk
  • CSA Self Assessment
  • Annual Gap Survey
  • Utilization Management Reports

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Management of Risk

THREAT * EXPOSURE * INTERNAL CONTROLS = EXPECTED LOSS

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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
**What are Control Activities?**

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- Policies and procedures for **addressing significant risk**.
- Assure management’s directives are carried out.
- Sufficient to help ensure that you are managing your significant risks.
Control Activities

- **Preventive:**
  - Segregation of duties
  - Proper authorization
  - Limiting access to files and systems

- **Detective:**
  - Review of performance
  - Reconciliation
Control Activities

• Corrective:
  • Exception Reports
  • Corrective Action Plans
  • Recoupment of Funds
  • Legal Action
Control Activities

Segregation of Duties – Preventive

Authorization

Recording

Custody
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.
Control Activities—Preventive

Approved

Certain activities or transactions require supervisor approval.
Control Activities– Preventive Verification

Be an A-C-E reviewer of reports

- Is the information Accurate?
- Is the information Complete?
- Are the operations Efficient?

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Control Activities—Preventive

Security of Assets—restrict access to assets and information to authorized personnel
Control Activities—Detective

Review of Operating Performance

Reconciliations
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
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)
Monitoring

- **Stakeholder Monitoring**
  - CSA Coordinator – 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

• **Stakeholder Monitoring**
  
  • Family Assessment and Planning Team (FAPT)
    – 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. The FAPT is responsible for assessing the strengths and needs of troubled youths and families who are approved for referral to the team and identify and determine the complement of services required to meet these unique needs.
Monitoring

• **Stakeholder Monitoring**

  • Community Policy and Management Team (CPMT) – 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.
Monitoring

- **Stakeholder Monitoring**
  - State Executive Council (SEC) – Focus is on the organization as a whole with more emphasis on monitoring the organization’s achievement of its mission.
### Internal Control Weakness vs. Non-Compliance Observation  
#### What’s the Difference?

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

Important to Remember
Non–compliance itself can be an internal control weakness.
SESSION

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
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