



Florida Inspectors General

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What are Internal Controls?

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What is control?

Control:

1. To exercise authoritative or dominating influence over; direct.
2. To adjust to a requirement; regulate.
3. To hold in restraint; check.
4. To reduce or prevent the spread of.

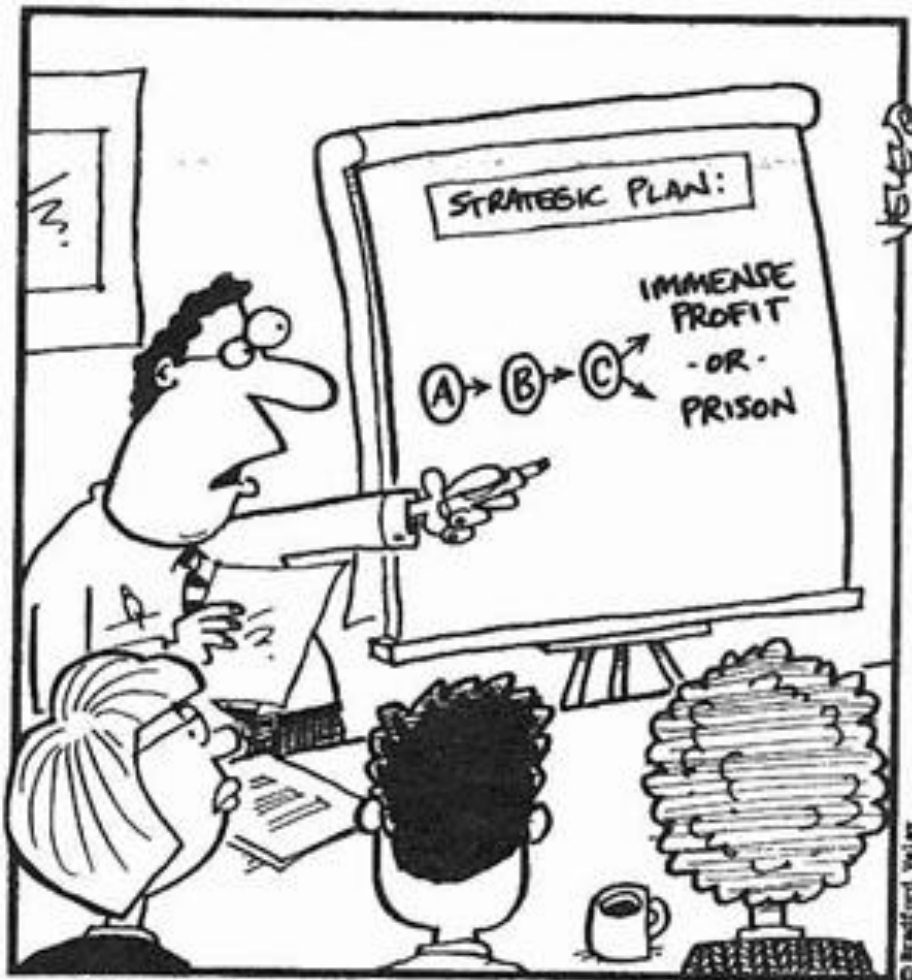
Simple terms...

So what are internal controls?

Means by which management ensures the goals or objectives of the organization are accomplished.

* Also called management controls.





"Stay with me now, people, because in step C, things get a bit delicate."

Technical terms...

So what are **internal controls**?

Measures taken by the organization for the purpose of:

1. Protecting its resources against waste, fraud, and inefficiency;
2. Ensuring accuracy and reliability in accounting and operating data;

Technical terms...

So what are internal controls?

Measures taken by the organization for the purpose of:

3. Securing compliance with policies of the organization; and
4. Evaluating the level of performance in all organizational units of the organization.

“When you control the ball, you control the score.”

- Pele



Putting it together – cashier example

What internal controls can be put in place for a cashier role:

1. Protecting its resources against waste, fraud, and inefficiency
 - record beginning and ending cash register totals and reconcile to recorded cash sales
2. Ensuring accuracy and reliability in accounting and operating data
 - record purchased items by their barcode
3. Securing compliance with the policies of the organization
 - • create cashier policies and distribute to staff
4. Evaluating the level of performance in all organizational units of the organization
 - • review cash register activities (e.g. refunds, overrides, cash out)

Control?



Control Activities

Specific policies and procedures management uses to achieve its objectives.

- Segregation of duties
- Proper authorization
- Adequate documents and records
- Physical control
- Independent checks

Control Activities

Specific policies and procedures management uses to achieve its objectives.

- Segregation of duties
 - Requires that different individuals be assigned responsibility for different elements of related activities, particularly those involving authorization, custody, or recordkeeping.



Control Activities

Specific policies and procedures management uses to achieve its objectives.

- Proper authorization
 - Of transactions and activities helps ensure that company activities adhere to established guidelines unless responsible managers authorize another course of action.



Control Activities

Specific policies and procedures management uses to achieve its objectives.

- Adequate documents and records
 - Provide evidence that reports and financial statements are accurate.



Control Activities

Specific policies and procedures management uses to achieve its objectives.

- Physical control
 - Over assets and records help protect the company's assets.



Control Activities

Specific policies and procedures management uses to achieve its objectives.

- Independent checks
 - On performance help ensure the reliability of accounting information and the efficiency of operations.



Other Control Activities

Specific policies and procedures management uses to achieve its objectives.

- Supervision or monitoring of operations – observation or review of ongoing operational activity.
- Physical safeguards – usage of cameras, locks, physical barriers, etc. to protect property, such as merchandise inventory.
- IT Security – use of passwords, access logs, etc. to ensure access restricted to authorized personnel.
- Top level reviews–management review of reports comparing actual performance vs. plans, goals, and established objectives.
- Controls over information processing– examples include edit checks of data entered, accounting for transactions in numerical sequences, comparing file totals with control accounts, and controlling access to data, files and programs.

Group Exercise 1: State Parks

You have suspicions that the attendant at the Maclay Gardens' entrance gate is pocketing a portion of park entrance fees.

What internal controls can be put in place to ensure all entrance fees are accurately reported?



Group Exercise 2: GED General Education Development

You have received a complaint that an employee in the GED Office is selling unauthorized GEDs for \$50.

What internal controls can be put in place to ensure unauthorized GED's are not created/sold?

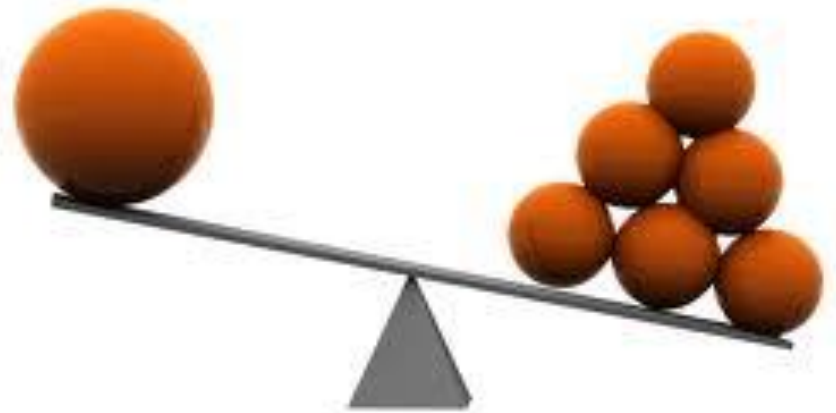


Benefits and Importance of Internal Controls

- Controls should be a positive means of helping managers achieve objectives and goals.
- Not a straightjacket for employees.
- Good controls protect the organization and the employee.
- Compare what is with what should be.
- Permit management to make corrective actions.

Balancing Internal Controls

- Too much control can be as bad as too little.
- Expensive, restrictive controls can stifle performance and initiative.
- Avoid controls that are:
 - Too voluminous
 - Too complex
 - Too generalized
 - Misleading





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Why Controls Do Not Always Work



- Controls do not always achieve their intended purpose.
 - Game playing/Sabotage
 - * Controls considered to be a challenge, something to beat. Employees attempt to damage the control system.
 - Inaccurate information
 - * Managers manipulate information to make themselves and their units look better.
 - Illusion of control
 - * Managers give the impression that control systems are in force and functioning, when the systems are actually ignored or misinterpreted.



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Questions?

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