AMHERST GOVERNMENT FINANCIAL ADVISORY BOARD (AGFAB)

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MINUTES

Meeting Date: Thursday, October 24, 2024
Meeting Location: Northtown Center
1615 Amherst Manor Dr.
Williamsville, NY 14221
Meeting Time: 7pm

I. Roll-Call

Attendee Name	Present (X)	Arrived
Jason Zaklikowski	☒	
Helaine Sanders	☒	
John DiPasquale	☐	
Jeff Marion	☒	
Michael Szukala	☒	
Daryl Bramer	☒	
Lynda Juul	☒	
(VACANT)	☐	
(VACANT)	☐	

	Yes	No
QUORUM MET? (At least 4 members present)	☐	☒

No motions were carried or votes taken as there was no Quorum.

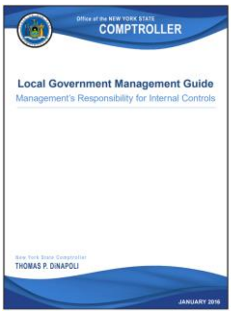
Attending members voluntarily watched New York State Office State Comptroller Local Training Academy Webinar, “Overview of Governmental Accounting”

Management's Responsibility for Internal Controls

Dan Acquilano, Manager of Local Official Training
Division of Local Government and School Accountability

Learning Objectives

- Definition
- Responsibility
- Origins and Framework
- Five Elements
- Limitations
- Impact of Information Technology
- Role of Internal Auditors and Audit Committees
- Resources



Internal Controls Definition

- "A process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations."
  - Internal controls are activities or procedures designed to provide reasonable assurance that operations are "going according to plan."

Responsibility

- Who is responsible for implementing internal controls?
    - **Management** – Including the Governing Board.
- Who is responsible for monitoring internal control compliance?
    - **Management** – Including the Governing Board.
- Who is responsible for following internal controls?
    - **Everyone!**

Origins and Framework

- The Committee of Sponsoring Organizations (COSO) of the Treadway Commission
- Five Elements of Internal Controls
    - Control environment
    - Risk assessment
    - Control activities
    - Communication
    - Monitoring

Control Environment

- "Tone at the Top"
    - The governing board sets the proper tone for the control environment when it establishes and communicates a code of ethics, requires ethical and honest behavior from all employees, observes the same rules it expects others to follow and requires appropriate conduct from everyone in the organization.

Risk Assessment

- Identify those events, conditions or risks that could significantly affect the achievement of the organization's objectives.

Risk Assessment

- The nature and characteristics of certain activities and assets puts them at greater risk for fraud or material error. This condition is referred to as inherent risk. Some characteristics that generally increase inherent risk are:
  - Opportunity, Unfamiliarity, Complexity, Change and Rapid Growth.

Risk Assessment

- **Opportunity**
  - Cash, high theft assets, control over assets
- **Unfamiliarity**
  - Newer programs or processes
- **Complexity**
  - Difficult or complex programs
- **Change**
  - Turnover or change in program
- **Rapid Growth**
  - Fast growth without increased staff or resources

Understand the Risk

- Fraud Triangle – Pressure, Rationalization and Opportunity
- Focus on what you can control – Opportunity.
- Understand your process, ask questions and limit opportunity.

Assess Risks by Asking Questions

Applied to the organizational objectives

- What must go right for us to succeed?
- What events can prevent achieving these objectives?
- Which of our assets are most liquid or desirable and, therefore, in most need of protection?
- What information do we rely on to achieve objectives?
- What typical decisions are made in our operations?
- What are our most complex activities?
- What changes do we see on the horizon?

Assess Risks by Asking Questions

Applied to Cash Receipts

- Where is cash collected?
- Who is collecting, recording and depositing cash?
- Can unauthorized employees access cash prior to deposit?
- Are reconciliations completed? How often?
- Could cash be stolen without detection?
- Will accounting errors be detected and corrected?

Assess Risks by Asking Questions

Applied to Financial Condition

- Is there a Fund Balance Policy?
- Who creates the budget and maintains the financial records?
- How often is the budget monitored and what records are reviewed?
- Can appropriations be overspent without detection?
- Are revenues received timely?

The Risk Assessment Process

Objectives	Risks to Achieving Objectives	Controls in Place	Control Deficiencies	Corrective Action
Instructions: List the primary objectives of the entity, department, program or activity.	Risks should be associated with a listed objective. There are a multitude of risks that could be identified regarding each objective. Focus on significant risks with a reasonable likelihood of occurrence.	For each risk, identify controls that exist to prevent the risk from occurring and to help detect the occurrence of the risk.	Identify where the design of current controls may not be sufficient to mitigate risk and where existing controls may not be operating effectively. Note: internal auditors and audit committees can be a valuable source of information about potential control deficiencies.	List the corrective action to be taken and who will be responsible for implementing the action.

Risk Assessment: Example

Objectives	Risks to Achieving Objectives	Controls in Place	Control Deficiencies	Corrective Action
Example: Bank deposits and investments are protected from loss.	During peak cash flow periods, bank deposits and investments exceed FDIC insurance.	A security and custodial agreement is in place.	The agreement has not been reviewed in several years, may not be current, and the level of pledged securities may no longer be adequate. Also, there is no agreement with a new depository where deposits also exceed FDIC insurance.	The chief fiscal officer or business manager will: 1) Compare bank deposits at peak periods to pledged collateral amounts. 2) Contact new depository to obtain security for deposits in excess of FDIC insurance. 3) Present all agreements to legal counsel to verify that agreements meet statutory requirements.

Control Activities

- Policies and procedures designed by management to help ensure that the organization’s objectives and goals aren’t negatively impacted by internal or external risks

Control Activities

- Directive Controls
  - Provide guidance to help achieve the desired outcome
- Preventative Controls
  - Deter the occurrence of errors or other undesirable events

Control Activities

- Detective Controls
  - Identify when errors or undesirable events have occurred
- Corrective Controls
  - Identify flaws in the process and take corrective action

Assessing Controls

- Continuously assess controls that may be in place and determine if they are working properly and are efficient and effective.
  - Established rates are accurately charged
  - Transactions are recorded in a timely manner
  - Accounting records are accurate

Information and Communication

- Each employee should:
  - Understand their role.
  - Understand how their actions relate to others.
  - Understand that they have a responsibility to communicate problems they notice.
- Information and communication must be allowed to flow in all directions.

Information and Communication

- Training opportunities
  - Annual
- Review of policies and procedures
- Addressing consequences
- Reporting of inaccuracies
- Exceptions

Monitoring

- Monitoring determines whether policies and procedures are being followed.
- Monitoring identifies significant control deficiencies in a timely manner.

Monitoring

- Converting policies to actions
  - Personnel policies, contracts and bargaining agreements
  - No consequences
- Finding the cracks
  - Follow-up questions
  - Walking the spaces
  - See the evidence

Limitations of Internal Controls

- Internal controls provide reasonable but not absolute assurance that the entity's goals and objectives will be achieved.
- Most common limitations include:
  - Cost-benefit relationships.
  - Collusion.
  - Management override.

Impact of Information Technology

- Creates risk not managed by the hard and soft controls implemented through control activities
  - Processing of financial transactions
  - Storage of sensitive information
  - Opportunity for the manipulation of data

Controlling Risk from Information Technology

- The single most important and easiest control to implement is limiting access to the system administration sector of the financial management software.

Role of Internal Auditors and Audit Committees

- Enhance the effectiveness of the control framework
- Assist the governing board in meeting oversight responsibilities for internal controls

Internal Auditors

- Perform examinations of operating and financial controls
- Conduct efficiency and effectiveness reviews
- Conduct reviews of compliance with laws and other external regulations
- Evaluate the design and execution of internal controls

Audit Committees

- Make recommendations to the board regarding the appointment of the internal auditor
- Assist in the oversight of the internal audit function, including a review of the annual internal audit plan to ensure that high risk areas and key control activities are periodically evaluated and tested

Audit Committees

- Review the results of internal audit activities
- Monitor implementation of the internal auditor's recommendations
- Participate in the evaluation of the performance of the internal audit function

Resources

- Audits of Local Governments
  - https://www.osc.state.ny.us/local-government/audits
- Publications
  - https://www.osc.state.ny.us/local-government/publications
- Training
  - https://www.osc.state.ny.us/local-government/academy

Additional Resources

- Office of the State Comptroller - Internal Control Task Force
  - https://www.osc.state.ny.us/state-agencies/guidance/internal-control
- Standards for Internal Control in New York State Government
  - https://www.osc.state.ny.us/files/state-agencies/guidance/pdf/agencies-ictf-docs-int-control-stds.pdf

Thank You

Division of Local Government and School Accountability
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