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## The Role of Finance Departments in Fraud Prevention

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**INTERNAL CONTROLS**  
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## What is Internal Control?

- Process to achieve organization objectives
- Comprehensive system is necessary to provide **reasonable assurance** to achieve goals and objectives

## What makes for a Comprehensive Control Structure?

- Components of Internal Control
  - Control Environment
  - Risk Assessment
  - Control Activities
  - Information and Communication
  - Monitoring



## Components of Internal Control

- **Control Environment**
  - Management attitude, integrity, ethics, values, authority and responsibility
- **Risk Assessment**
  - How you determined control activities
- **Control Activities**
  - The activities that address risks
- **Information and Communication**
  - How and when you communicate on control activities
- **Monitoring**
  - How you ensure control activities are working

## How is Fraud Initially Discovered?

- **Association of Certified Fraud Examiners (ACFE) Stats:**

**Highlights:**

- Approx. 40% Tips
- Approx. 15% Internal audit
- Approx. 15% Management review
- Approx. 5% Account reconciliation



## Responsibilities for Internal Control

- Internal Control is not any “one” individual or department responsibility. Everyone plays a role.
  - Governing Board
    - Audit Committee
  - General Manager / City Manager
  - Departments / Business Units
  - Finance Department
  - Internal Audit



## Audit Committee

- Key part of good control environment (tone)
- Specific subcommittee to address governing board responsibilities for **internal control** and **financial reporting**.
- Responsibilities include:
  - Audit Findings
  - Adjustments to Financial Reporting
  - Management Involvement Internal Control
  - Oversight of complaints



## Management

- Key part of good control environment (tone)
- Responsibilities include:
  - Efficiency and Effectiveness of Organization
  - Compliance
  - Financial Reporting
  - Internal Controls to Achieve objectives

## Risk Assessment

- Essential to good controls
- Not one size fits all approach. Unique to organization
- Includes various levels of management

## Risk Assessment (Continued)

What to consider and evaluate:

- Changes in environment (Internal & External)
- Inherent Risk
  - Override of controls
  - Cash
  - Financial Reporting
  - Centralization / Decentralization
  - Prior Issues
- Significance and Likelihood

## Control Documentation

- Document how transactions **should be** processed
  - Who, What, When, Where, Why, and How
  - Design and Implementation
- Don't make documentation too complex
  - Flowchart and/or Narrative Form
  - Easy to understand
  - Cover all applicable departments and activities
- Working Document
  - Not designed to sit on shelf
  - Process to reevaluate

## Separate Evaluations

- Routine Checkups. Who Performs?
- Available to Board
- Importance to include review of Departments/  
Business Units
- Vulnerability to Fraud Schemes
- Results of Tips

## Findings

- Results of internal and external audits available management and board
- All findings should include:
  - Detailed explanation of issue
  - Corrective Action Plan
  - Timeline to address issue
  - Monitoring Progress mechanism

## Monitoring Control Activities

### Reconciliation

- Examples
- What are you Looking for?
- Considerations:
  - Who Should Perform?
  - How are Issues Handled?
  - What are Management Responsibilities?





## Monitoring Control Activities (Continued)

### Verifications

- Examples
- What are you Looking for?

- **Considerations:**

- Who Should Perform?
- How are Issues Handled?
- What are Management Responsibilities?



## Monitoring Control Activities (Continued)

### Analytical Review

- Examples
- What are you Looking for?

- **Considerations:**

- Who Should Perform?
- How are Issues Handled?
- What are Management Responsibilities?



## Monitoring Control Activities (Continued)

### Data Analytics

- Examples
- What are you Looking for?

- **Considerations:**
  - Who Should Perform?
  - How are Issues Handled?
  - What are Management Responsibilities?

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Questions?

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