



*Applying the Latest COSO Internal Control Guidance
in the Governments
Custom Designed BLI Seminar*

*Jennifer Louis, CPA
Business Learning Institute Provider*

*Presented to
Association of Government Accountants
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<http://www.blionline.org>



INSTRUCTOR BIOGRAPHY

Jennifer Louis, CPA

Jennifer F. Louis, CPA, has more than 14 years of experience in designing and instructing high-quality training programs. In 2003 she joined Emergent Solutions Group, LLC, a consortium of professionals serving organizations on a project- or part-time basis to create a division dedicated to training services.

Most recently, Ms. Louis was executive vice president / director of training services at AuditWatch, Inc., a premier training and consulting firm serving the audit profession. She began her career at AuditWatch as vice president of product development. Before joining AuditWatch, Ms. Louis was the financial / operational audit manager at AARP.

Ms. Louis also was an audit manager for Deloitte & Touche LLP. During her years at Deloitte & Touche's Washington D.C. office, she was a frequent local and national instructor. She also served as an instructor for the firm's national "Train the Trainers" program.

Ms. Louis graduated summa cum laude from Marymount University with a BBA in accounting. She is a member of the American Institute of CPAs and the American Society for Training & Development, and is licensed to practice in the Commonwealth of Virginia.

Applying the Latest COSO Internal Control Guidance in the Governmental Environment



Learning Objectives

- Describe the *COSO Internal Control – Integrated Framework (2013)*
- Explain how the COSO framework helps entities properly manage risk
- Discuss how the COSO framework applies in the governmental environment

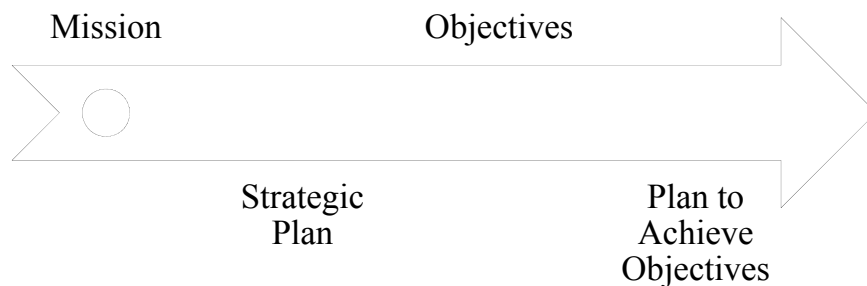


Overview of COSO *Internal Control – Integrated Framework (2013)*

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Internal Controls Linked to Entity's Mission



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Benefits of COSO Framework

Mission

- Improves Accountability for Achieving Mission

Adaptable

- Shifting Demands, Priorities, Risks, Environments

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COSO Internal Control – Integrated Framework (2013)

Principle-Based

Flexible

Adaptable

Reliable

Cost Effective

Applies to All
Entities

External and
Internal Focus

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Broad Goal: Reduce Risk

Either Eliminate Risk or Reduce Risk to Acceptable Level

Identify Risk

Evaluate Risk

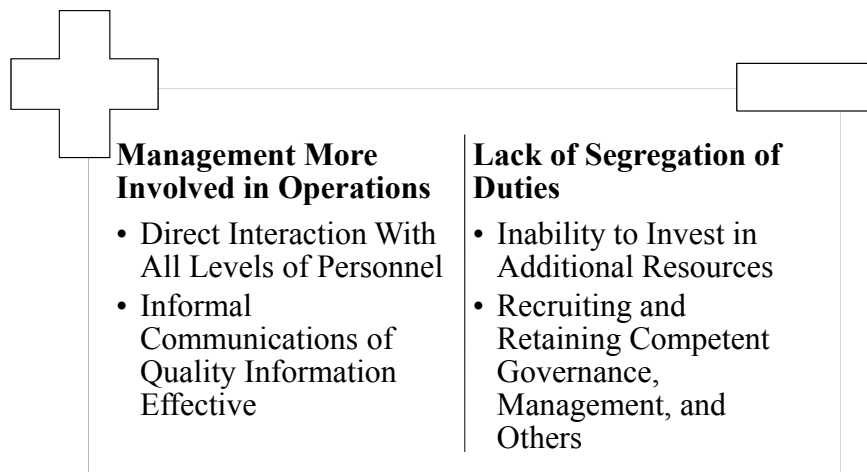
Decide Proper Response

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Large vs. Small Entities



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Standards for Internal Control in the Federal Government

- Also called “The Green Book”
- Adopts the COSO principles for a government environment
 - Effective stewardship of public resources
- May be adopted by state, local, and quasi-governmental entities
 - Even nonprofits

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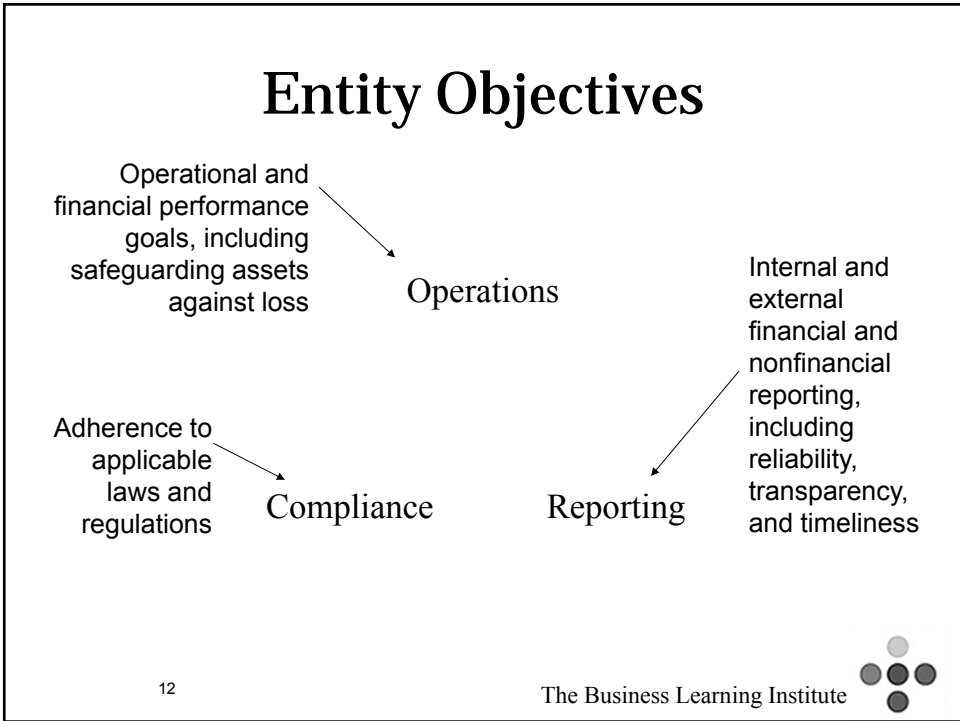
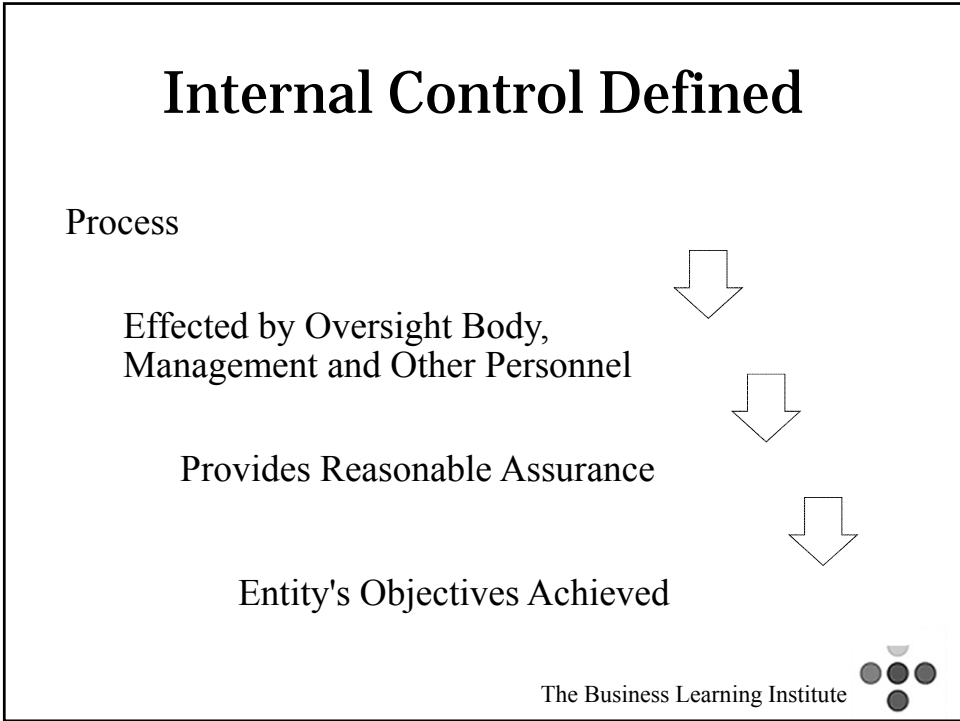


Primary Objectives of Internal Control

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Operations Objectives

- Achieving entity's mission and vision
 - Resources may be misdirected
- Based on management's choices
 - Profitability, return on assets, liquidity
 - Productivity and quality
 - Customer and employee satisfaction
 - Increasing donor satisfaction
 - Satisfying governmental program objectives

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Reporting Objectives

- Financial
 - Internal: Customer Profitability Analysis, Bank Covenants, Divisional F/S
 - External: Annual F/S, Interim F/S
- Nonfinancial
 - Internal: Asset Utilization, Customer Satisfaction, Health and Safety Measures
 - External: Internal Control Reports, Sustainability, Supply Chain

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Compliance Objectives

- Laws and regulations
- Contracts, grants and agreements

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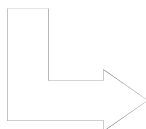


Relationship of Objectives, Components, and Principles

Objectives

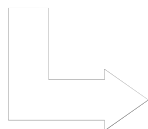
- What Entity Wants to Achieve

Must All Operate Together in an Integrated Manner



Components

- What Required To Achieve Objectives



Principles

- Underlying Concepts That Must be Met

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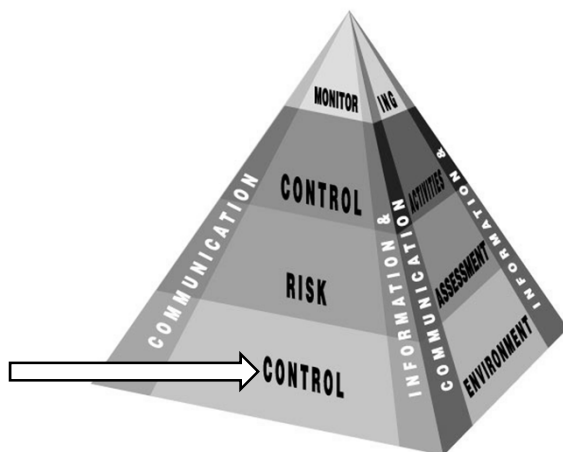
Control Environment Component and Principles

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5 Internal Control Components



Source: Based on the 2013 COSO Integrated Framework

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Key Purpose of Control Environment

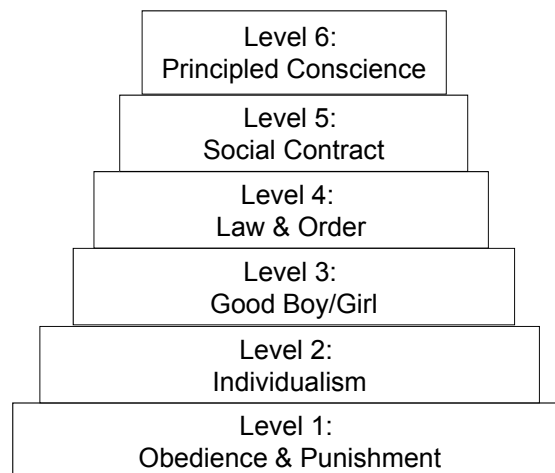
- Foundation for entire system
- Sets positive attitude toward internal control through tone at the top
- Establishes standards or conduct
- Provides discipline and structure
- Influences how objectives defined and control activities structured

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Theory of Moral Development



Source: Lawrence Kohlberg, Harvard University Professor

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1. Commitment to Integrity and Ethical Values

- Governance and management demonstrates importance by tone at top
 - Through directives, attitudes, and behavior
- Uses ethical values to balance needs and concerns of different stakeholders
- Establishes processes to evaluate performance against expected standards of conduct

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2. Governance Oversees Development and Performance of Internal Control

- **Determines an oversight structure to fulfill governance responsibilities**
- **Oversees design, implementation, and operation of internal control system**
- **Provides input to management's plans for remediation of internal control deficiencies**

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Responsibilities of an Oversight or Governance Body

Oversees
Operations

Provides
Constructive
Criticism

Makes
Decisions

Oversees
Management

Works With
Key
Stakeholders

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Specialized Skills of an Oversight Body

- Internal control mindset
- Professional skepticism
- Programmatic or operational expertise
- Financial and accounting expertise
- Relevant systems and technology
- Legal and regulatory expertise

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3. Appropriate Structure, Reporting Lines, Authority, and Responsibilities

- Establishes organization structure necessary to enable entity to play, execute, control and assess objective achievement
 - Considers how units interact
- Assigns responsibility and delegates authority to key roles
- Develops and maintains documentation of internal control system

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4. Commitment to Attract, Develop, and Retain Competent Individuals

- Establishes expectations of competence to carry out assigned responsibilities
- Recruits, develops, and retains competent personnel
- Defines succession and contingency plans for key roles
 - Long-term replacement and response to sudden, unexpected personnel changes

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5. Holds Individuals Accountable

- **Enforces accountability for individual performance**
 - Supports day-to-day decision making, attitudes, and behaviors
 - Incentives, performance appraisals and disciplinary actions
- **Adjusts excessive pressures on personnel**
 - Goals, unrealistic workloads, few resources

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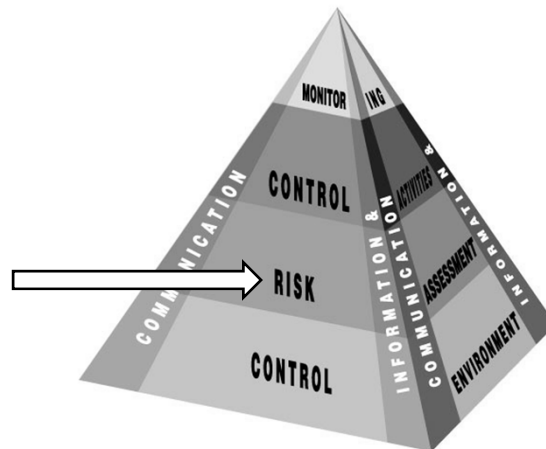
Risk Assessment Component and Principles

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5 Internal Control Components



Source: Based on the 2013 COSO Integrated Framework

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6. Sufficiently Clear Objectives to Enable Identification and Assessment of Risks

- **Defines objectives in specific and measurable terms to enable design of internal control for related risks by all levels of entity**
 - Free from bias and not subjective
- **Defines risk tolerance for objectives in specific and measurable terms**
 - Acceptable level of variation in performance

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Risk Tolerances

Operations

- Level of Variation in Performance

Nonfinancial
Reporting

- Level of Precision and Accuracy Suitable for User Needs

Financial
Reporting

- Judgments About Materiality

Compliance

- Compliant vs. Noncompliant Only

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7. Identifies and Analyzes Risks as a Basis for Determining Proper Response

- Identifies risks to provide a basis for analyzing risks
- Analyzes the identified risks to estimate their significance
 - Provides basis for responding to the risks
- Designs responses to the analyzed risks
 - So that risks are within defined risk tolerance for the defined objective

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Evaluating Significance of Risks

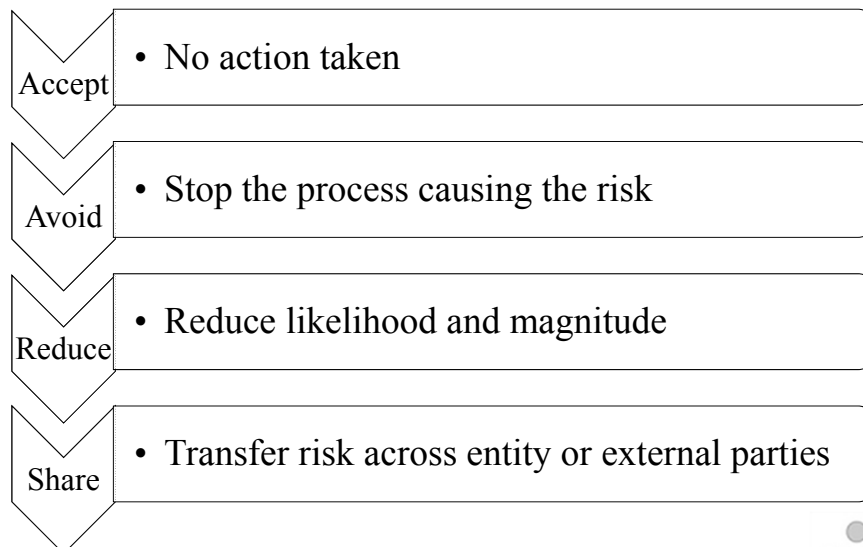
- **Likelihood of occurrence**
 - Remote, possible, probable
- **Magnitude of impact**
 - Impacted by size, pace and duration
- **Nature of risk**
 - Degree of subjectivity involved, fraud potential, complexity, out of the course of ordinary business, etc.

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Risk Responses



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8. Considers Fraud Potential

- Identifies types of fraud that can occur
- Considers fraud risk factors
 - Incentive/Pressure
 - Opportunity
 - Attitude/Rationalization
- Analyzes and responds to identified fraud risks to they are effectively mitigated
 - Including management override

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Types of Fraud

Fraudulent Financial Reporting

Misappropriation of Assets

Corruption

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9. Identifies and Assesses Changes That Could Significantly Impact Internal Control

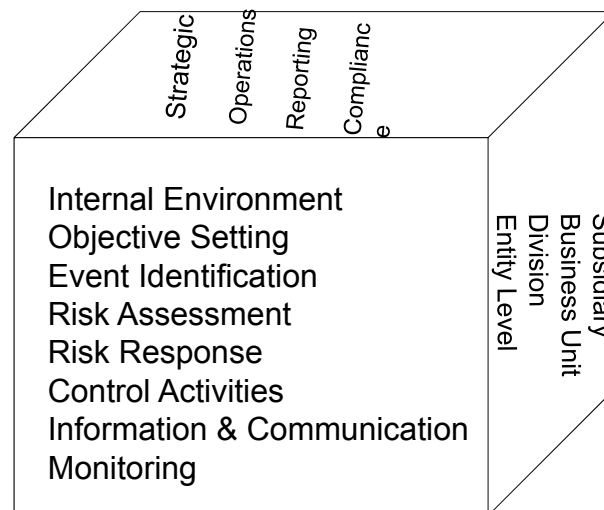
- Identifies changes that could significantly impact the entity's internal control system
 - Forward-looking and timely process
- Analyzes and responds to identified changes and related risks to maintain an effective internal control system

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Enterprise Risk Management



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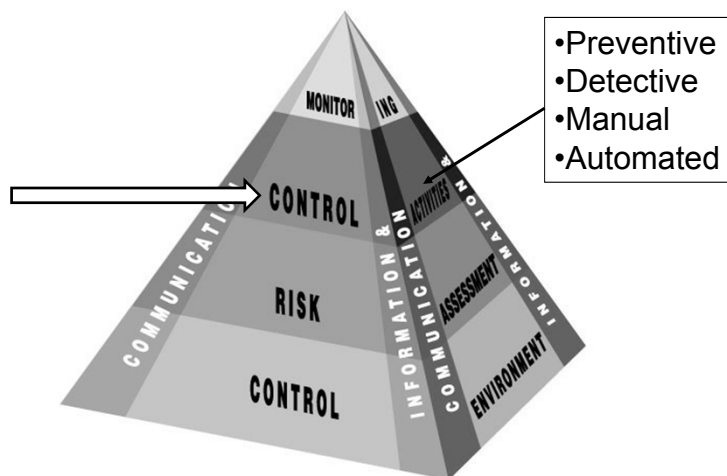
Control Activities Component and Principles

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Control Activities



Source: Based on the 2013 COSO Integrated Framework

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10. Selects and Develops Control Activities That Mitigate Risk to an Acceptable Level

- Designs policies, procedures, techniques, and mechanisms in response to objectives and related risks
- Ensures control activities help management fulfill responsibilities and addresses identified risk responses
- Designs control activities at the appropriate levels in the organization structure
- Ensures proper segregation of duties

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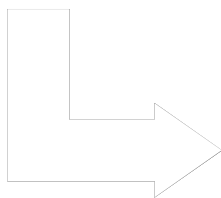
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Levels of Control Activities

Entity
Level

- Pervasive to Entity as Whole



Activity
Level

- Actions Built Directly Into Operational Processes

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Common Control Activity Categories

- Top-level reviews of actual performance
- Functional or activity—level review
- Management of human capital
- Information processing controls
- Physical control over vulnerable assets
- Accurate and timely transaction recording
- Appropriate documentation
- Review of performance measures

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Typical Controls for All Entities

- Document control (e.g., sequential numbering)
- Batch totaling or reconciliations
- Independent checks and reviews
- Exceptions routines (e.g., spot checks)
- Limiting access appropriately
- Approval authority levels
- Clear assignment of responsibility
- Employee knowledge and skills

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Factors Influencing Precision

Purpose	Level of Aggregation	Consistency of Performance	Correlation to Operations
<ul style="list-style-type: none"> • Identify and Explain Differences? • Prevent or Detect? 	<ul style="list-style-type: none"> • More or Less Granular? 	<ul style="list-style-type: none"> • Routine or Sporadic? 	<ul style="list-style-type: none"> • Direct or Indirect?

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Mitigating Lack of Segregation of Duties

- Review reports of detailed transactions
 - Regular and timely review of system reports
- Review selected transactions to supporting documentation
- Periodically observe assets
 - e.g., Physical inventory, equipment, and other assets
- Check independent reconciliations periodically
 - e.g., Cash, accounts payable, accounts receivable

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11. Selects and Develops General Control Activities Over Technology

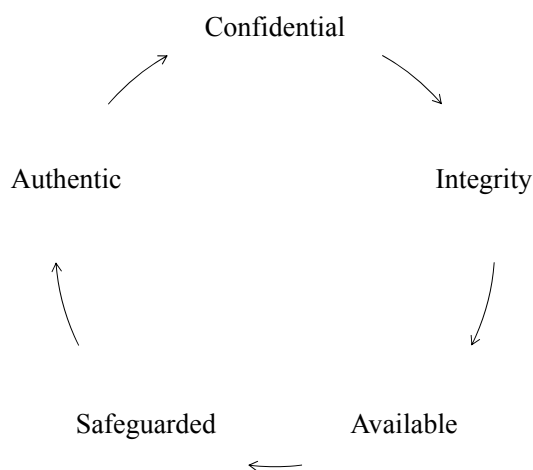
- Designs the entity's information system to respond to objectives and risks
- Designs appropriate types of general and application controls
- Considers information technology infrastructure to support complete, accurate, and valid information processing
- Considers security management
- Considers acquisition, development and maintenance

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Security Management Objectives



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SDLC Framework

- **Systems Development Life Cycle (SDLC)**
- **Structure for new IT design**
 - Outlines specific phases, documentation requirements, approvals, and checkpoints
- **Requires authorization of change requests**
- **Protocols for determining whether changes are made properly**

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Mitigating Information Technology Risks

- **Use commercially developed software packages**
 - Still must control implementation and operation
 - Since not developed internally, less need for program change controls
- **Unauthorized program modifications less likely, as personnel typically do not have the technical expertise to do so**
- **Applications have embedded facility for controlling access, performing data integrity checks, maintaining related documentation, etc.**

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12. Deploys Control Activities Through Policies That Establish Expectations and Procedures

- Documents responsibilities in policies
- Periodic review of control activities
 - Including after significant changes in personnel, operations, or technology

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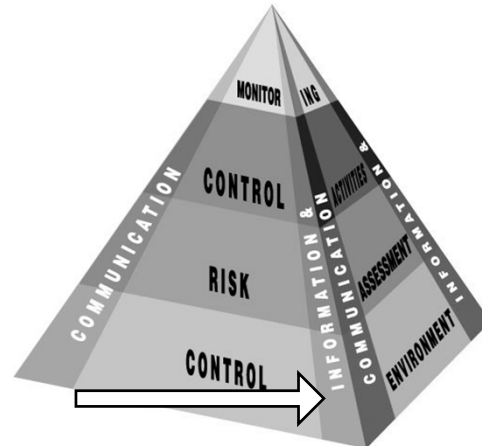
Information and Communication Component and Principles

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5 Internal Control Components



Source: Based on the 2013 COSO Integrated Framework

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13. Obtains/Generates and Uses Relevant, Quality Info to Support Internal Control Functioning

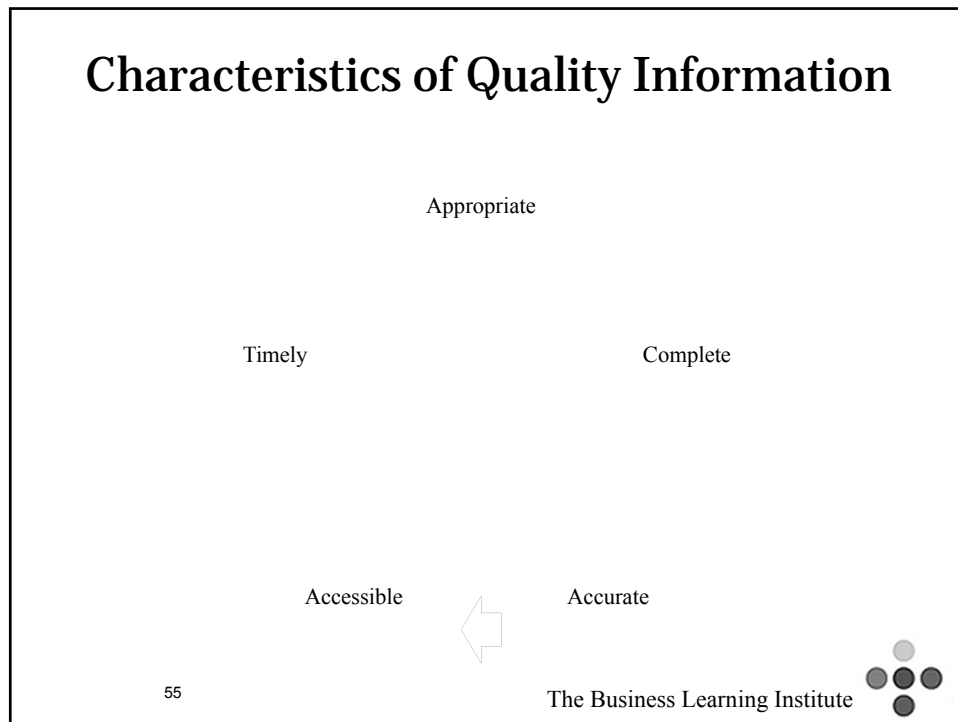
- **Identifies information requirements needed to achieve objectives and risks**
 - Considers expectations of both internal and external users
- **Obtains relevant data from reliable sources in a timely manner**
 - Reasonably free from error and bias
- **Processes data into quality information**

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Characteristics of Quality Information



14. Internally Communicates Info Necessary for Internal Control Functioning, Including Objectives and Responsibilities

- **Communicates quality information throughout the entity using established reporting lines**
 - Up, down, across, and around the entity
- **Selects appropriate methods of communication**
 - e.g., Written vs. face-to-face

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Communicating Roles, Responsibilities, and Expectations

- Importance of internal control to job responsibilities
- Individual roles and responsibilities
- Importance of investigating unexpected or unusual transactions/events
- Interrelationship of job responsibilities
- Importance of upward communication

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15. Communicates With External Parties Regarding Internal Control Matters

- **Communicates with, and obtains quality information from, external parties using established reporting lines**
 - e.g., Suppliers, contractors, service organizations, regulators, external auditors, government entities, and general public
- **Selects appropriate methods of communication**

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Use of Outside Service Organizations

- Outsourced providers are increasingly more advantageous for larger and smaller entities
 - Execute and maintain transaction accountability
 - Record and process transactions initiated by a user organization
- Inherently part of user organization's internal control

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User Organization Controls

- Determine significance of internal controls at the service organization to the user organization's financial reporting
 - Evaluate design and implementation
 - May rely on for operating effectiveness
- High degree of user interaction indicates compensating/mitigating controls
 - May be sufficient and appropriate evidence

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Types of Service Organization Control (SOC) Reports

SOC1

- Reporting on Controls at a Service Organization
- Relevant to ICFR

SOC2

- Reporting on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality or Privacy

SOC3

- Trust Service Principles, Criteria, and Illustrations for Security, Availability, Processing Integrity, Confidentiality, and Privacy
- Not an Actual Report

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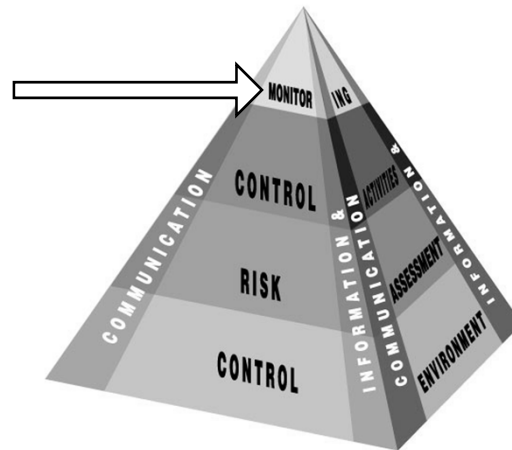
Monitoring Component and Principles

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5 Internal Control Components



Source: Based on the 2013 COSO Integrated Framework

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16. Selects, Develops, and Performs Ongoing and/or Separate Evaluations to ascertain Whether the Components of Internal Control are Present and Functioning

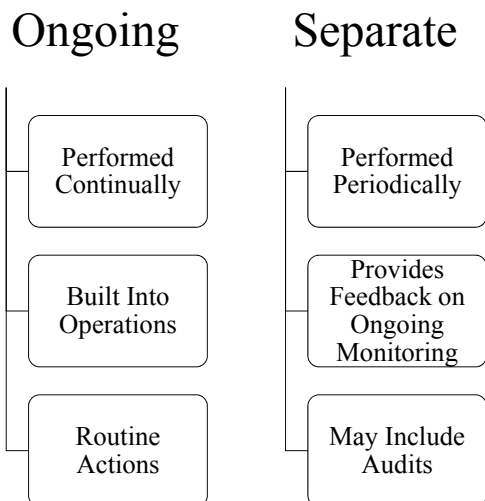
- Establishes a baseline to monitor the current state of the internal control system
- Monitors through ongoing monitoring and separate evaluations
- Evaluates and documents results

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Ongoing vs. Separate Evaluations



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Verifying Implementation vs. Operating Effectiveness

Implementation

- Controls Exist and Are In Use

Operating Effectiveness

- Consistently Applied in a Quality Way

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Management Commitment Crucial

- Smaller entity management particularly likely to be too trusting
- Ask for and review reports on a periodic basis
- Know what to expect, and be alert for outliers
- Demonstrate to employees that management is reviewing and monitoring
- Clearly outline policy for integrity and ethics
- Model expected behavior
- Perform random “spot checking”

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Mitigating Management Override

- **Culture of integrity and ethical values**
 - Embedded and practiced on a daily basis
- **Anonymous whistle-blower program**
 - Act upon tips, regardless of level
- **Effective internal audit function**
 - Ready access to senior management
- **Attract and retain qualified governance who take responsibilities seriously**
 - Adequate financial literacy

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17. Evaluates and Communicates Deficiencies in a Timely Manner to Those Responsible for Taking Corrective Action, Including Management and Governance

- Issues reported through established reporting lines on timely basis
- Evaluates and documents issues to enable appropriate timely corrective action
- Completes and documents corrective actions timely
 - Includes audit resolution process

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Summary of Effective Internal Control Elements

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Effective Internal Control

Each of 5 Components and 17 Principles Present & Functioning

Designed, Implemented and Operating Effectively

5 Components Integrated in Operation

Collectively Reduce Risk to Acceptable Level

Map Controls to 17 Principles

Individual Controls May Satisfy Multiple Principles

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Thank You!

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WHAT IS BLI?

BLI is the training affiliate of the MACPA. BLI's mission is to deliver competency-based courses, content and community that enhance learning and foster organizational and executive leadership.

BLI has grown into the largest provider of on-site training in the country. Pam and the Customized Learning Solutions team have grown the business in three core segments – Corporate, Firm and Government.

THE BLI CURRICULA

Today's business environment demands the need to gain competencies and share strategic knowledge. BLI delivers competency-based curriculum, courses, content, and community to enhance learning and grow intellectual capital for organizational and executive leadership.

These soft skills are essentially people skills – the non-technical, intangible, performance skills that determine your strengths as a leader, manager, and team member.

STRATEGIC MANAGEMENT

Strategic conversation reflects the dynamics between the organization and its environment. The closer the language reflects current and potential customer dynamics, the higher the company's profit potential.

LEADERSHIP DEVELOPMENT

Great leadership is one of the most valued of all human activities. Modern myth holds that "leaders are born not made," but leadership is a set of observable and learnable practices - it is the process people use when they bring out the best in others and themselves.

BUSINESS MANAGEMENT

As the business world moves at an incredible pace, keeping up is a key to success. Today's financial managers must be able to translate strategy to operational and corporate growth.

PERFORMANCE MEASUREMENT MANAGEMENT

Executives and managers must effectively transform their firms or companies into high performance organizations and progressively identify and develop the appropriate core competencies and link them to their business strategies.

COMMUNICATION SKILLS

Many people in the business field cannot communicate effectively and, even more damaging, don't realize it. Success is not defined solely by a product line or service - it relies on relationships formed and maintained through skillful communications. Your competitors know this. Do you?

TECHNICAL EXPERTISE

Keeping up with technical competencies is a core business requirement for financial professionals. Staying attuned to the latest changes, updates, and regulations are necessary components to staying competitive in an ever-changing business environment.

TECHNOLOGY AND COMPUTER SKILLS

Harness the technology you use every day to make your business life easier and allow you to work smarter.



Please note that many programs in this catalog are available in Webcast format. Contact a BLI Customized Learning consultant if you are interested in a Webcast. 888-481-3500