

October 2, 2025

Statewide Accounting Insights

Internal Controls

Kennesy Cavanah and Julie Jorgenson
Statewide Accounting | Financial Reporting



CPE

- If you want CPE, you must:
 - Answer “Yes” on the first poll
 - Respond to all six polls
- If you do not want CPE, you can ignore the polls
- Certificates will be sent to eligible participants within two weeks

Statewide Accounting Insights

- Goal is to share information and provide general training on statewide accounting related topics
- Meetings will be held 3-4 times per year, depending on topics
- Meeting notices will be sent to individuals subscribed to the OFM Accounting Communications topic in GovDelivery. You can change your subscription [here](#).

☐ Accounting (OFM) 

☒ Accounting Communications 

Agenda

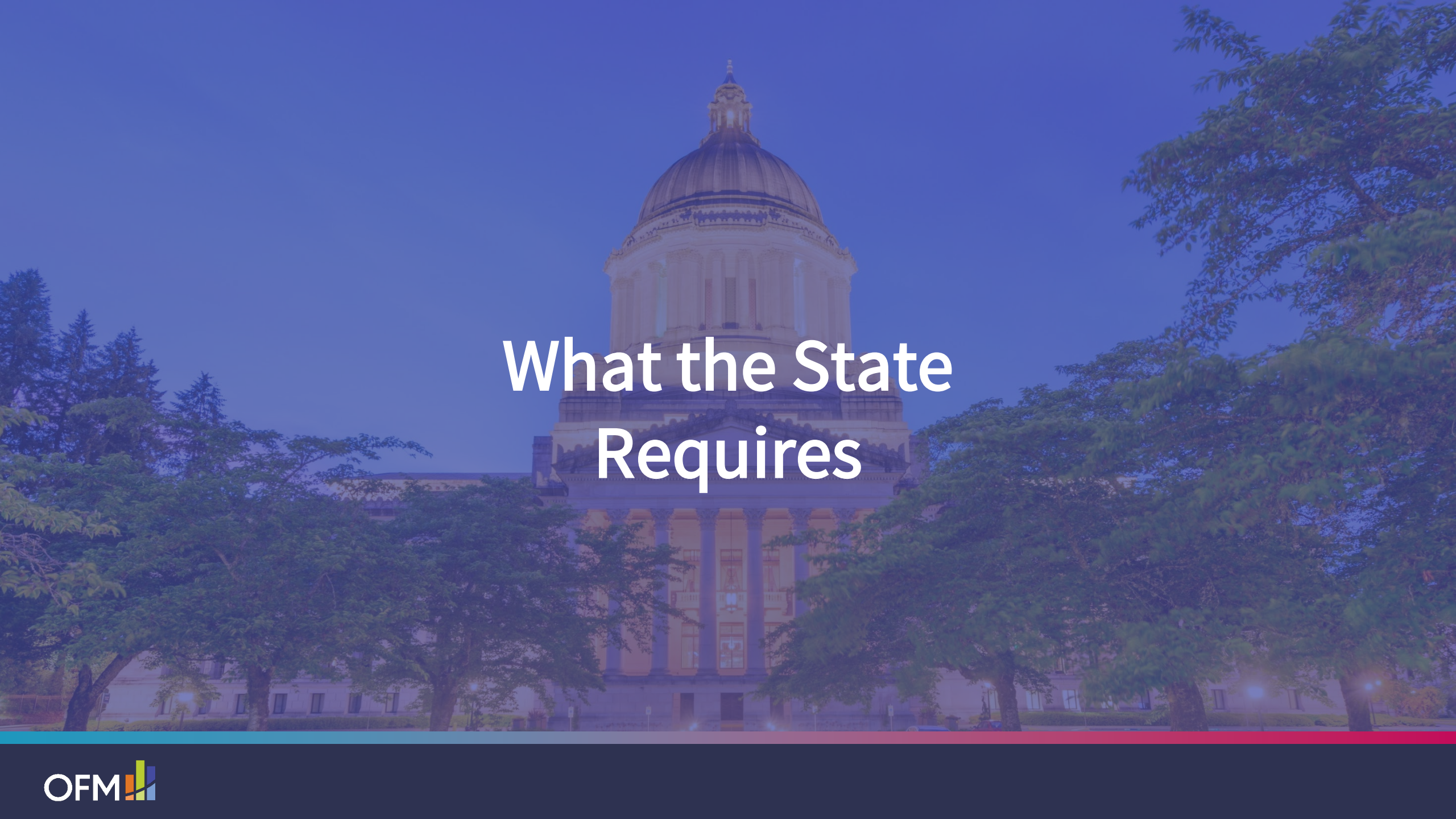
- Internal Control Overview
- Journal Entry and Batch Review
- Questions

Internal Control Overview

Kennessy Cavanah

Topics covered:

- Requirements
- Definition
- Importance of Internal Controls
- Limitations
- Roles and Responsibilities
- Internal Control Framework



What the State Requires



State Requirements for Internal Control...

- **Statute - RCW 43.88.160 (4) –**
 - Requires the director of OFM to develop and maintain a system of internal controls.
 - Assets, accounting data, operations, policies
- **SAAM Ch. 20 Internal Control**
 - Annual written assurance from internal control officer to agency head – SAAM 20.15.30 (b)
 - Financial Disclosure Certification – SAAM 90.40.95.a - #5
 - Federal Assistance Certification – SAAM 95.20.90



State Requirements for Internal Control...

Financial Disclosure Certification Form:

- (5) We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud. Our agency's system of internal controls incorporates adequate procedures and controls to safeguard our assets, check the accuracy and reliability of our accounting data, promote operational efficiency, and encourage adherence to policies for accounting and financial controls. If there are significant deficiencies in internal control, a summary of the deficiencies and corrective action is **attached** to this certification.



Definition: What is Internal Control?



Definition: Internal Control

Internal Control is...

- **A process** – effected by those charged with governance, management and other employees –
- Designed to provide **reasonable assurance** about the achievement of the entity's objectives in the following categories:
 - Safeguard assets
 - Check the accuracy and reliability of accounting data
 - Promote operational efficiency
 - Encourage adherence to policies for accounting and financial controls.



Definition: Internal Control

An Internal Control Is...

- Geared to the achievement of objectives
- A process
- Effected by people
- Provides reasonable assurance
- Adaptable to the entity's structure and size



Why Internal Controls are Important



Importance of Internal Controls

- Safeguard public assets
- Reduces the likelihood of error and fraud
- Promotes efficiency and effectiveness
- Provides for accurate, timely, and reliable accounting records
- Ensures regulatory compliance



Limitations to Internal Control



Limitations

- Human judgement/error
- External events out of the organization's control
- Breakdowns
- Management Override
- Collusion
- Limited resource



Roles and Responsibilities

Roles and Responsibilities



Roles and Responsibilities

Multiple parties have an interest in internal control





COSO and GAO's Greenbook

COSO

- Formed in 1985, COSO is a joint initiative of 5 public sector organization that develop frameworks and guidance on internal controls.

GAO Green Book

- Follows COSO components and principles
- More closely relates to governments
- It's free

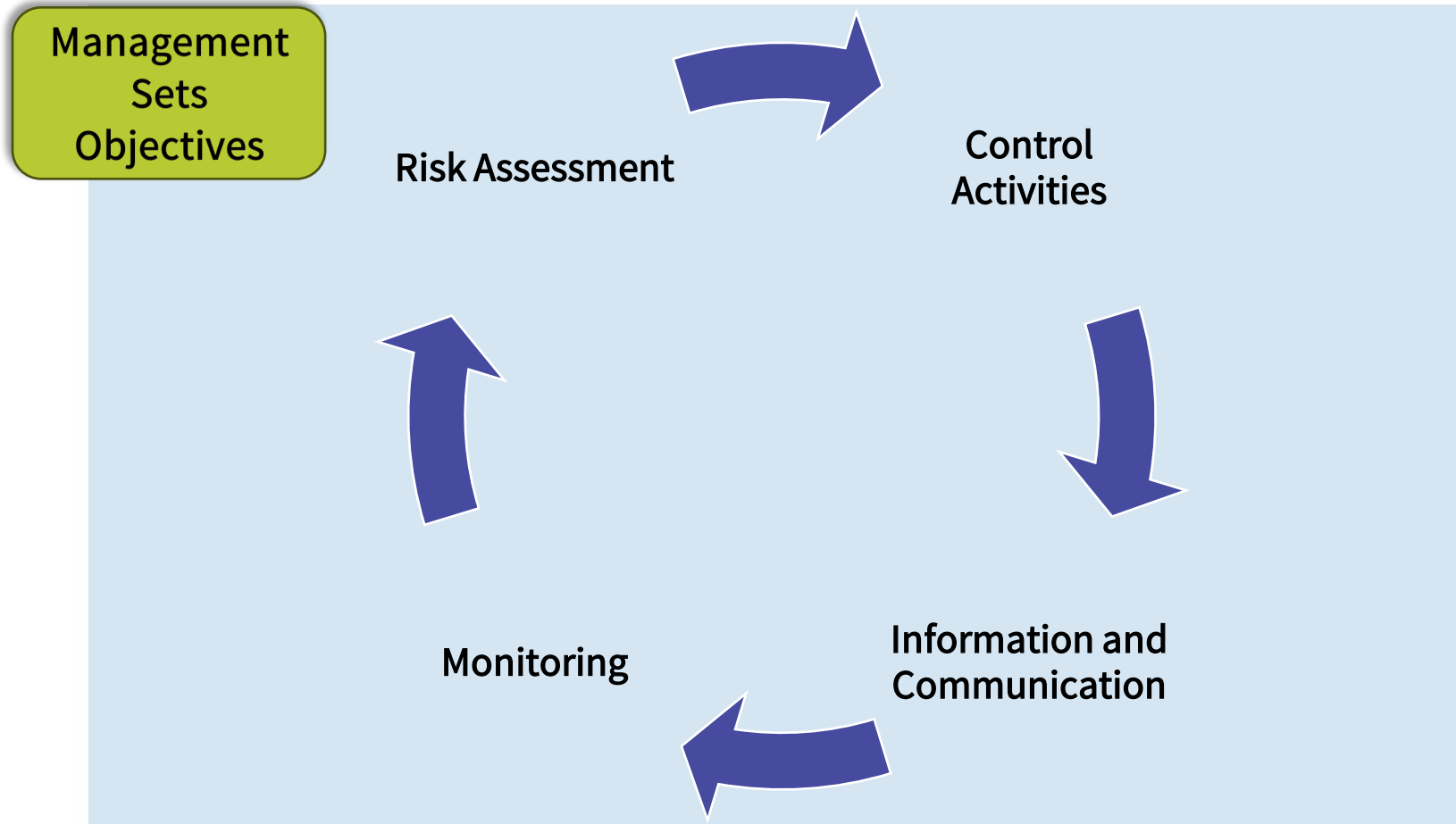


Internal Control Framework

Categories of Internal Control



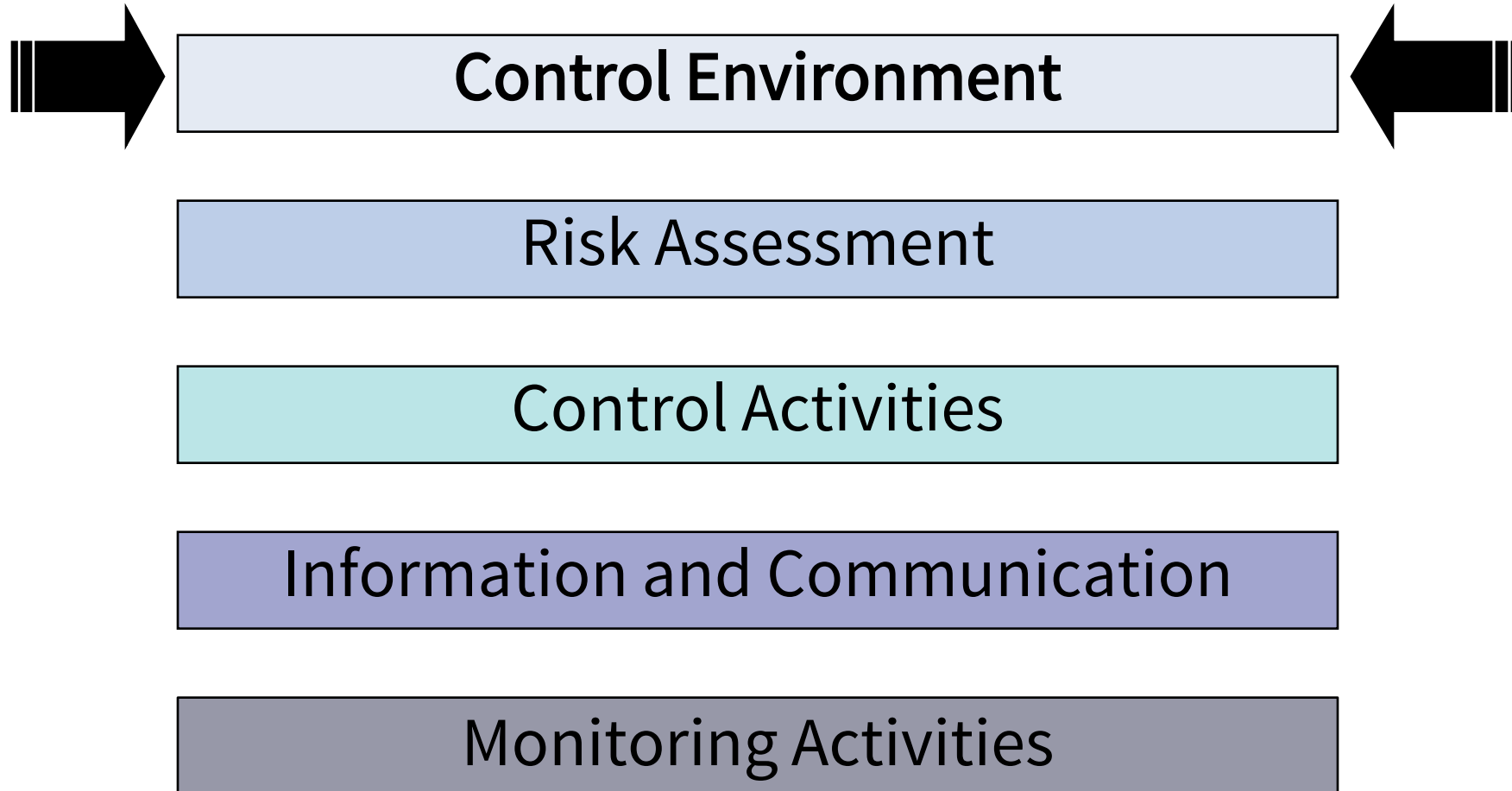
Internal Control Components





Components and Principles

Internal Control Components



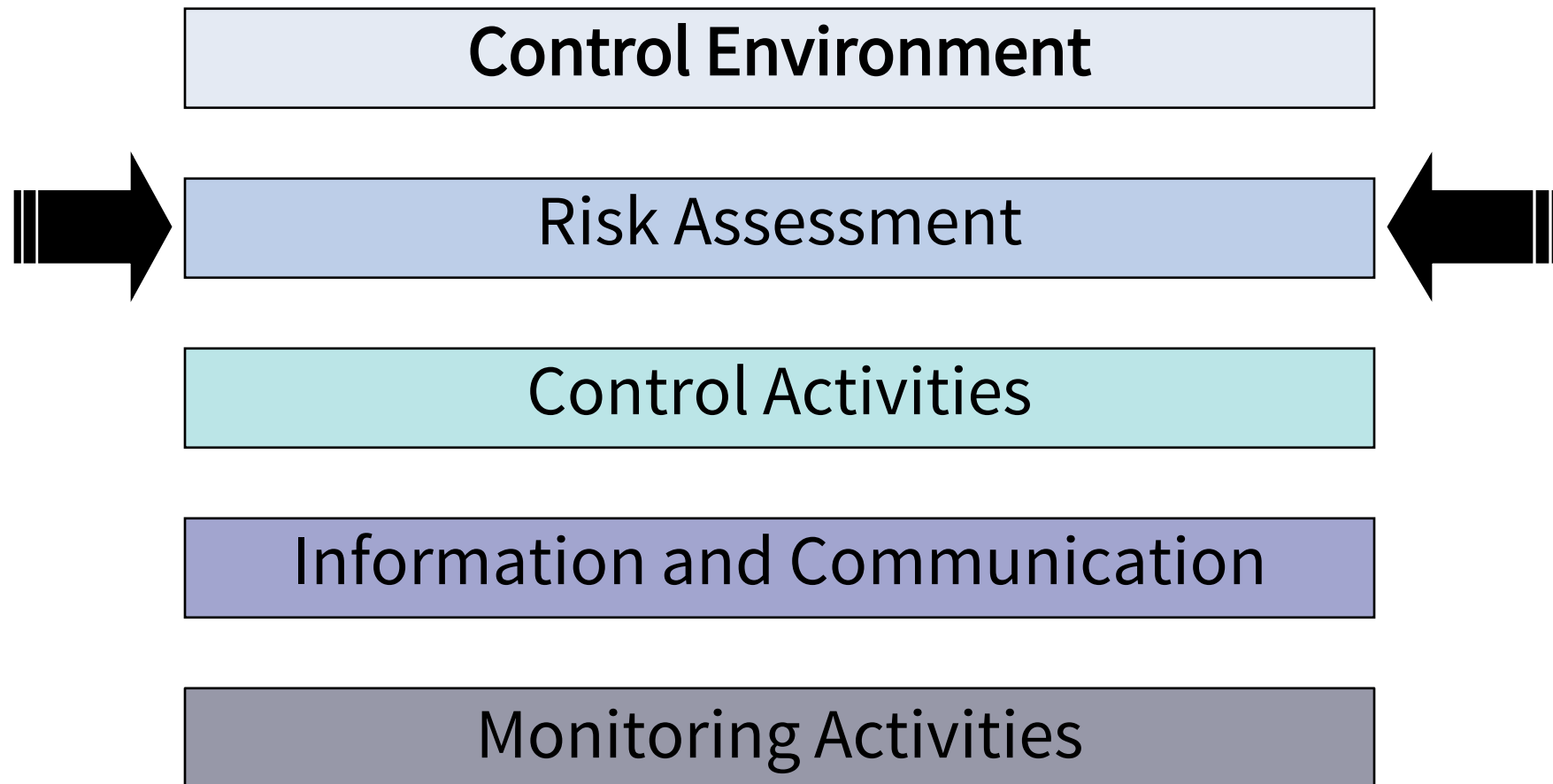


Control Environment

Management:

- Demonstrates commitment to integrity and ethical values.
- Oversees the development and performance of internal control.
- Establishes structures, reporting lines, and appropriate authorities and responsibilities in pursuit of objectives.
- Demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Internal Control Components





Risk Assessment

Management:

- Specifies objectives
- Identifies and analyzes risk
- Considers potential for fraud, improper payments, and information security
- Responds to significant change

Risk Assessment

Set clear objectives to identify and assess risk

Risk - the possibility that an event will occur and adversely affect the achievement of objectives.

To identify the correct *control*, you must know what *risks* are present.

To know what *risks* are present, you need to understand what *objectives* are being sought. Therefore,





Risk Assessment

Risk identification

To achieve its objectives, management identifies and analyzes risk. Risk identification...

- Is comprehensive and ongoing
- Includes an element of judgement
- Considers
 - Agency-wide risks
 - Inherent and residual risks
 - Internal and external factors



Risk Assessment

Risk identification

- What activities are inherently risky?
- What information is critical to agency's operations and how vulnerable is it?
- What activities are regulated by the federal government?
- Which areas are the most susceptible to fraud?
- Are assets (cash, inventory, fixed assets) adequately protected?
- What circumstances might endanger future funding of agency programs?
- What practices are being questioned by auditors and other oversight agencies?

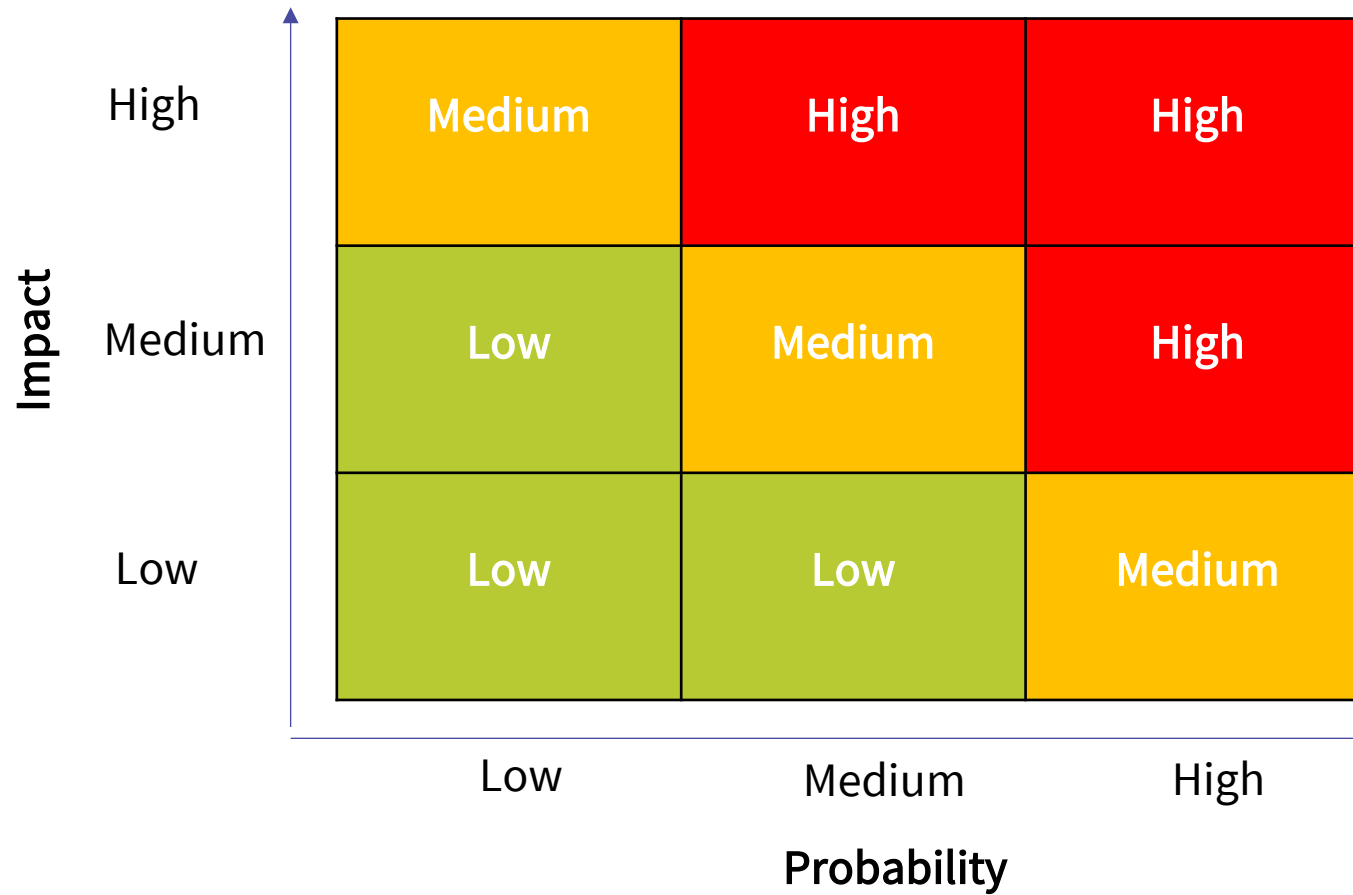


Risk Assessment

Risk analysis

- How important is this risk?
- How likely is it that this risk will occur (likelihood)?
- How large is the dollar amount involved (impact)?
- To what extent does the risk potential of one activity affect other activities?
- Are existing controls (policies and procedures) sufficient to manage this risk?
- To what degree are secondary controls in place?

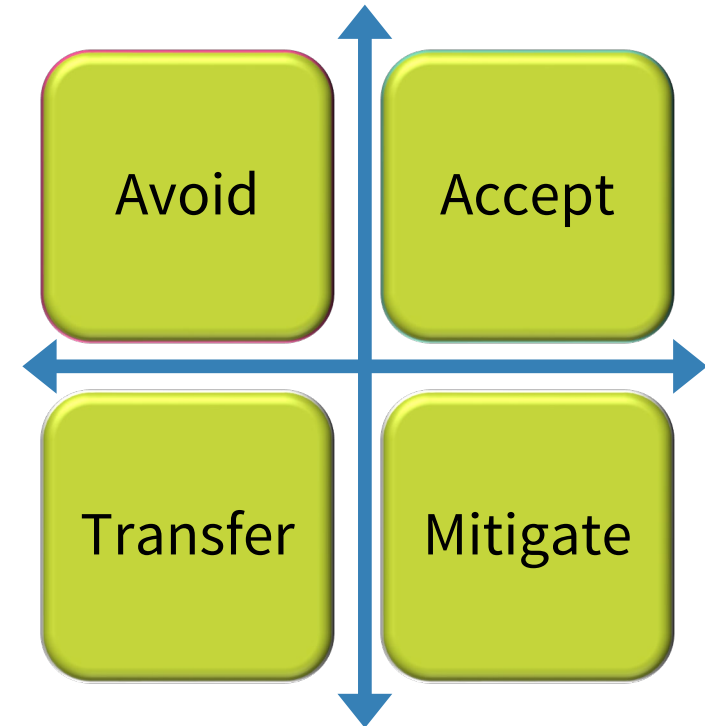
Risk Assessment



Risk Assessment

Risk Response

- Identify possible responses
 - Avoid
 - Accept
 - Transfer (Share)
 - Mitigate
 - Reduce the likelihood
 - Reduce the impact
- Evaluate the risk responses
 - Consider costs and benefit
- Select a response
- Document the entire process



Risk Assessment

Considers the potential for fraud, improper payments, and information security in assessing risk

Various Types of Fraud

- Fraudulent reporting
- Misappropriation of assets
- Misuse of assets
- Payroll fraud
- False claims
- Management Override
- Bribery

Improper payments

- Overpayments
- Underpayments

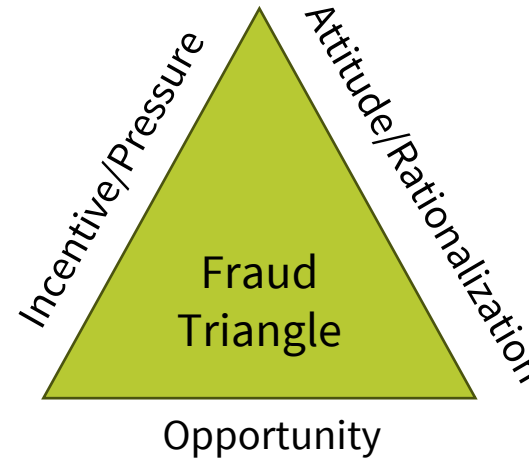
Information Security

- Unauthorized access
- Exploitation of personnel
- Installation of malicious software
- Automated attacks
- Undetected errors
- Threats to physical environment

Risk Assessment

Considers the potential for fraud, improper payments, and information security in assessing risk

Considers fraud risk factors



Poor internal controls can create opportunity...
Can **promote** rather than just **permit** fraud



Risk Assessment

RCW 43.09.185

If you have a suspected loss – Follow the procedures in
SAAM Chapter 70.75

(Notifying SAO is a requirement)

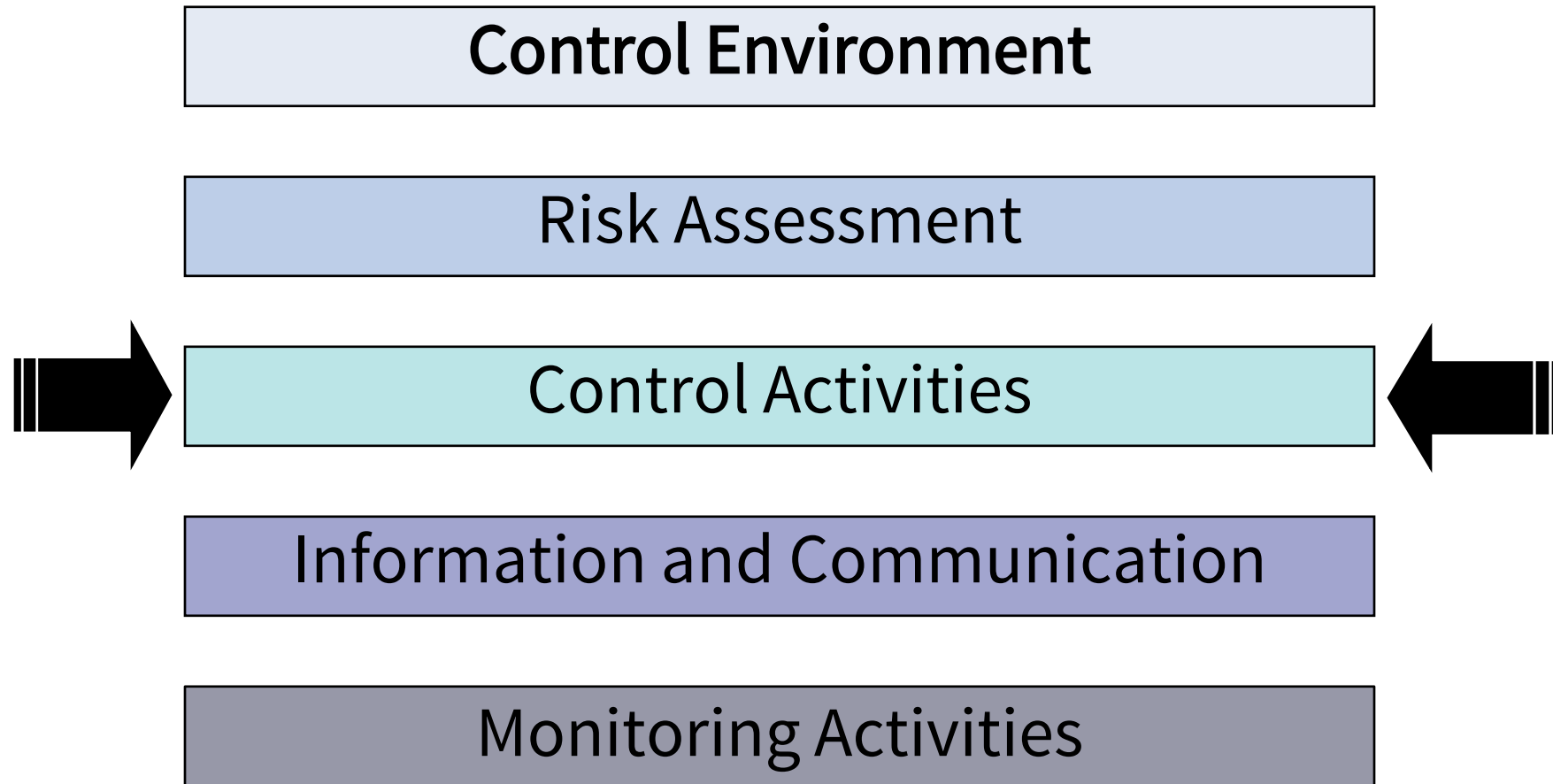


Risk Assessment

Identifies, analyzes, and responds to significant changes

- Takes into consideration the following factors:
 - The external environment
 - Business model
 - Leadership changes
- Establishes a change assessment process
- Analyzes and responds to changes

Internal Control Components





Control Activities

To achieve its objectives:

- Management designs control activities to achieve its objectives and respond to risks.
- Management designs its information systems and related control activities and respond to risks.
- The agency implements control activities through *policies* and *procedures*.



Control Activities

Designs control activities

- Integrate with risk assessments
- Consider entity-specific factors
- Consider at what level activities are applied
- Use a mix of control activities
- Address segregation of duties

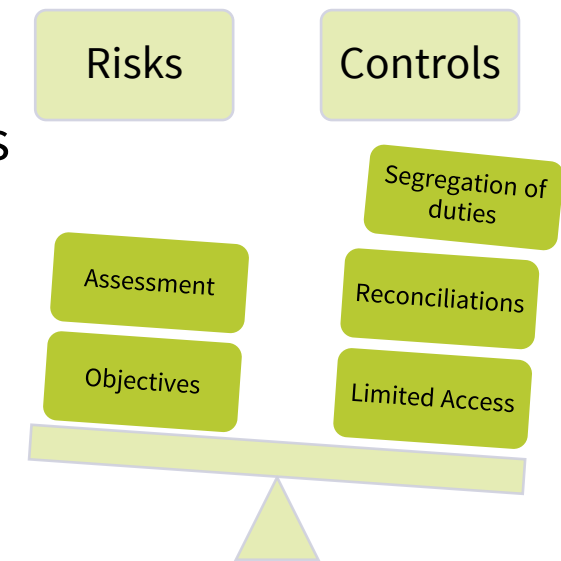
Control Activities

Designs control activities

Balancing Control Activities:

The cost of controls should never exceed the benefits of a control:

- Eliminate duplicate controls
- Implement both preventive and detective controls
- Automate



Control Activities

Designs control activities

We can divide controls into 2 groups:

Preventive

- Proactive - addresses issues before they occur
- Can be cost effective
- Reduces the likelihood of incidents from happening

Detective

- Reactive - addresses issues after they occur
- Can be costly
- May not always prevent incidents from happening



Control Activities

Preventive:

- Segregation of duties
- Authorizations
- Passwords
- Secured access
- Employee training
- Policies and procedures

Detective:

- Reconciliations
- Internal audits
- Physical inventory counts
- Analytical reviews



Control Activities

Designs control activities:

Expenditure Activities:

- Individuals responsible for cash disbursements functions should be segregated from those responsible for cash receipts.
- Individuals responsible for data entry of encumbrances and payment vouchers should not be responsible for approving these documents, or batch release.
- A department should not delegate expenditure transaction approval to data entry personnel.
- Individuals responsible for acknowledging the receipt of goods or services should not also be responsible for purchasing or accounts payable activities.



Control Activities

Designs control activities

Other control activities:

- Periodic performance comparisons
- Authority
- Documentation
 - Internal control system
 - Internal control assessments, risk analyses
 - All transactions
 - Significant events
- Supervision –
 - Assign tasks
 - Review staff work
 - Approve work at critical points
 - Guide, train staff as necessary
 - Document supervision and review



Control Activities

Designs information systems and related control activities

- Designs its information system to obtain, store and process quality information
- Defines responsibilities and delegates authority
- Ensures the technology infrastructure provides information that is complete, accurate, and available
- Restricts technology access rights to authorized users



Control Activities

Implement control activities through written policies and procedures

Written Policies and Procedures:

- Objective
- Responsibility
- Task
- Frequency
- Documentation



Control Activities

How it fits together: Procurement Process

Objective No. 1: All purchases are appropriately authorized, received, and accurately recorded

Risk No. 1: Unauthorized purchases will be made for goods and services

- **Control Activity No. 1:** The requesting department is required to prepare and submit a purchase requisition form for all goods and services.
- **Control Activity No. 2:** All purchases require an approval signature from the finance department before commitments are made

Risk No. 2: Receipts of goods and services are not accurately recorded in the system

- **Control Activity No. 1:** Invoices for goods and service are compared to the purchase requisition to ensure amounts for items ordered or services received agree
- **Control Activity No. 2:** Reconciliations are performed periodically to ensure that all transactions for the receipt of goods and services have been entered into the system



Control Activities

How it fits together: Cash receipts

Objective No. 1: Collections are deposited timely and intact.

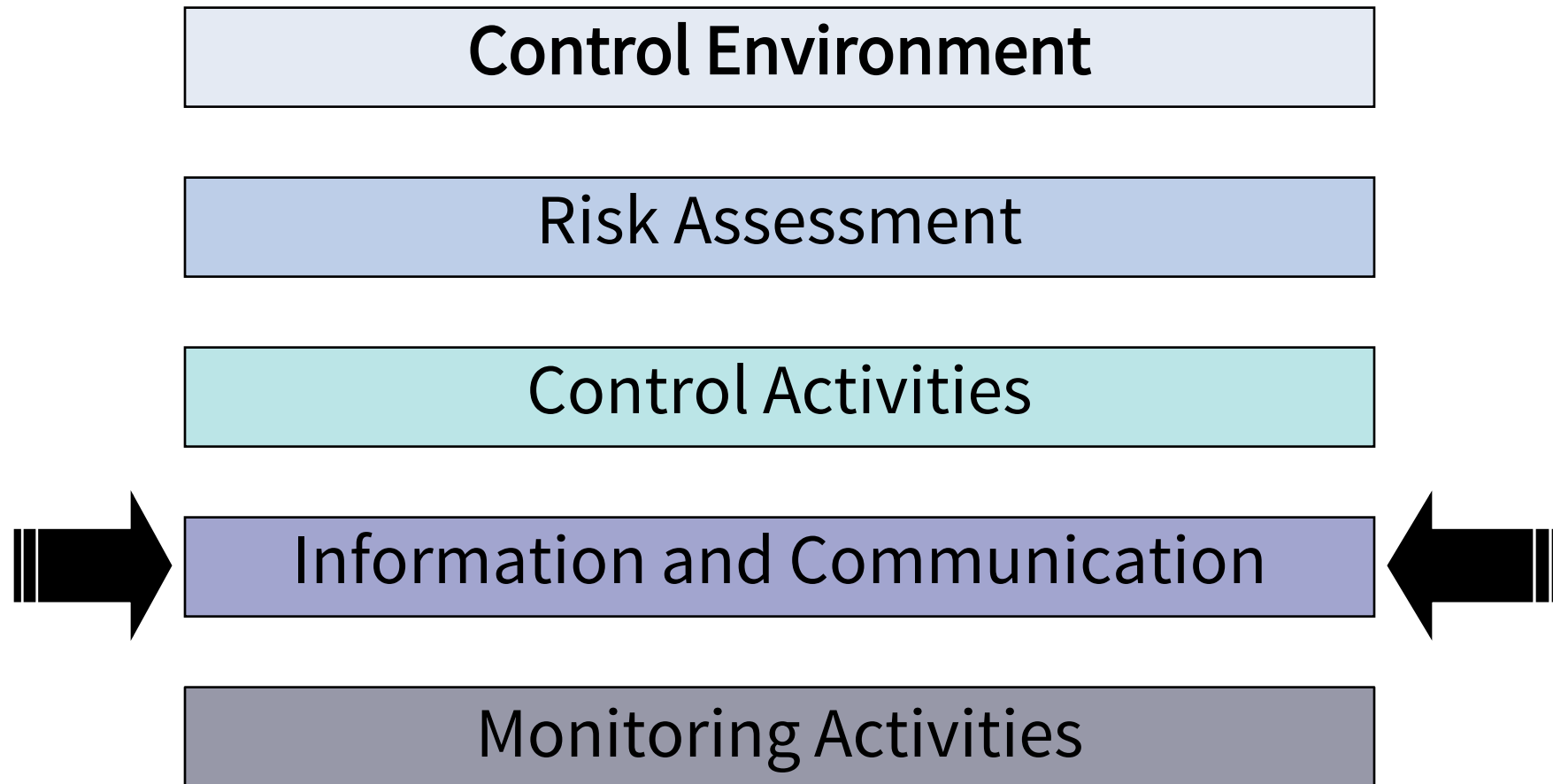
Risk No. 1: Failure to record cash upon receipt.

- **Control Activity No. 1:** Have two people open the mail, enter receipts into the system, and verify each other's entries.
- **Control Activity No. 2:** ??

Risk No. 2: Deposits are not made intact or are not complete

- **Control Activity No. 1:** Limit access to receipts waiting to be deposited
- **Control Activity No. 2:** ??

Internal Control Components





Information and Communication

The agency:

- Obtains or generates and uses relevant, quality information to support the functioning of internal control
- Internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control
- Communicates with external parties regarding matters affecting the functioning of internal control

Information and Communication Principles



Uses relevant information

The Agency:

- Identifies information requirements on an iterative and ongoing basis.
- Obtains relevant information from reliable sources
- Processes the data into quality information to support the internal control system

Information and Communication Principles



Communicates internally

- Communication across the organization includes:
 - Specified objectives
 - Policies and procedures
 - Importance of effective internal controls
 - Roles of employees in performing controls
 - Expectations to communicate
- Communication beyond normal channels – hotline
- Methods of communication
 - Dashboards, emails, live or on-line training,
 - Memos, discussions, performance evaluations,
 - Policies, procedures, website

Information and Communication Principles



Communicates externally

External communication considers with who and how:

- Communicates to external parties
- Enables inbound communication
- Communicates with the oversight body
- Provides separate communication lines
- Uses of relevant methods of communication

Information and Communication Principles



Effective internal communication

- Encourages employee involvement.
- Is a means to report exceptions to the appropriate higher level.
- Is used to distribute new policies or other information.

Open external communication

- Engages interested parties.
- Provides input and allows input to be given.
- Increases transparency and accountability.

Internal Control Components

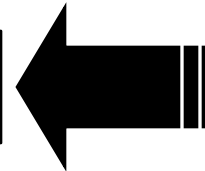
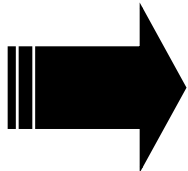
Control Environment

Risk Assessment

Control Activities

Information and Communication

Monitoring Activities





Monitoring

- Management establishes and performs activities to monitor the internal control system and evaluate the results.
 - Ongoing
 - Built into operations
 - Provides continual feedback on controls
 - Separate
 - Observations, inquiries, reviews, internal audits
 - Vary in scope and frequency
- The agency evaluates and communicates internal control deficiencies in a timely manner to parties responsible for taking corrective action.



Monitoring Principles

Performs monitoring activities

For example:

- Control Activity: A reconciliation control is deemed important to financial reporting.
- Monitoring Activity: The supervisor of the area performs (and documents!) an appropriately detailed review of the reconciliation each time it is prepared.

The supervisor's reviews accomplishes two things:

- Whether the control is working.
- Encourages continued effective operation of the control.



Monitoring

Evaluates and communicates deficiencies

- Assess results of monitoring
- Communicate deficiencies
- Monitor corrective action: Are there more than two options?
 - Correct the control – its design or use.
 - Eliminate the control if it is duplicative, not cost effective, etc.
- **Do something** in response to a deficiency.

A photograph of the Idaho State Capitol building at dusk, featuring a large dome and classical columns. The image is overlaid with a semi-transparent blue filter. The word "Questions?" is written in a large, white, sans-serif font across the center of the building. Lush green trees are visible in the foreground and to the sides of the building.

Questions?

Journal Entry and Batch Review

Julie Jorgenson

Journal Entry and Batch Review Steps

Preparing

Approving

Uploading

Releasing

Separation of duties



Preparer

- Gather supporting documentation
- Transaction codes will debit and credit appropriate GL accounts
- Fiscal period / month
- Sends it for approval
 - Current document number
 - Purpose of journal entry
 - Number of transactions
 - Batch hash amount



Approver

- Review journal entry for:
 - Description and purpose
 - Verify transaction codes will debit and credit the appropriate GL accounts
 - Supporting documentation
 - Fiscal period / month
 - Batch header matches journal entry
- Respond to preparer if needed
- Send approval to uploader



Uploader

- Check journal entry for:
 - Batch header accuracy
 - Number of transactions
 - Batch hash amount
 - Approval ties to journal entry
 - Fiscal period / month
- When uploading:
 - Select correct fiscal period / month
 - File selected is correct
- Send to releaser

Releaser

- Review IN.3 Screen for:
 - Batch type
 - Batch number
 - Fiscal period / month
 - Number of transactions
 - Batch hash amount
- Verify current document number
- **Payments – verify the vendor numbers and amounts**
- Release



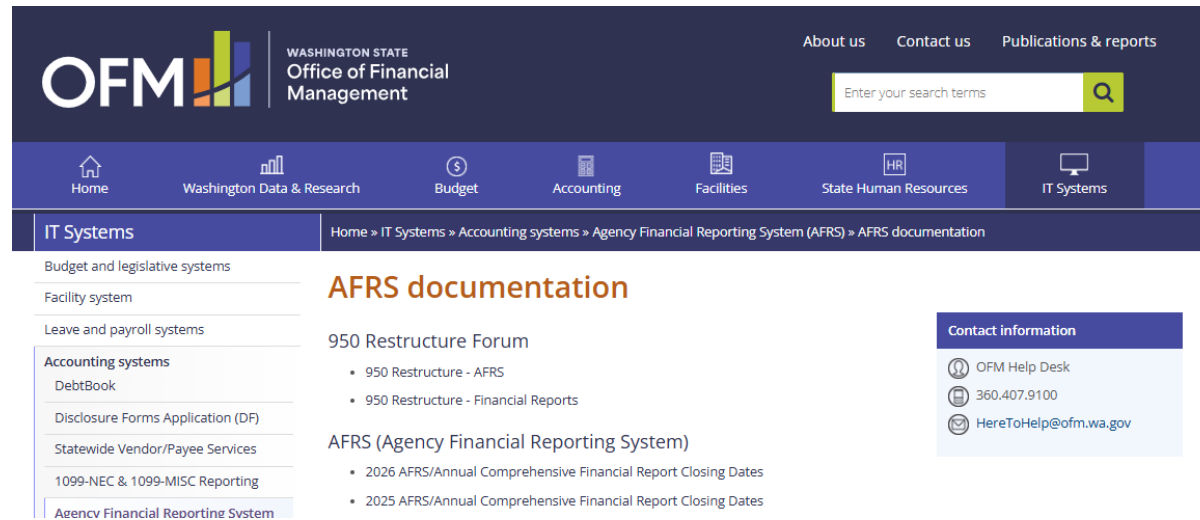
Payments Batches



- Identify fraudulent or incorrect payments

Documentation

- [AFRS documentation | Office of Financial Management](#) on the IT tab under ofm.wa.gov



- [Transaction Maintenance](#), Pg. 20 section on IN.3 screen
- [System Security Manual](#), Pg. 21 on AFRS batch type security
- [SAAM 90.10.40.b](#), General Agency Responsibilities related to using AFRS

A photograph of the Idaho State Capitol building at dusk, featuring a large dome and classical columns. The image is overlaid with a semi-transparent blue filter. The word "Questions?" is centered in white, bold, sans-serif font.

Questions?

For more information

Contact:

- Kennesy Cavanah | Statewide Accountant
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Next SWA Insights: January/February

Email topic suggestions for
future SWA Insights to:
Anna.Quichocho@ofm.wa.gov



Thank you!