

State Auditor's Office

2011 Review of Audits, Internal Controls and Ethics

Small Cities Subcommittee of
the Suburban Cities Association

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Areas for discussion

- Significant audit issues
- Internal controls
- Ethics



Significant audit issues

- Total audit issues for local governments in 2010: 428
 - Findings: 42
 - Management Letters: 44
 - Exit items: 342



Common audit issues

Accounting and financial reporting

- 46 issues
 - 11 findings
 - Three management letters
 - 32 exit notes



Common audit issues

Cash-receipting

- 52 issues
 - Two findings
 - 10 management letters
 - 40 exit notes



Common audit issues

Federal grants

- 89 issues
 - 18 findings
 - Three management letters
 - 68 exit notes



Common audit issues

- Other significant areas
 - Expenditures
 - Contracts/procurement/prevaling wages
 - Restricted funds
 - Payroll/personnel
 - Safeguarding of assets



Common audit issues

- The most cited reasons for audit issues are
 - Lack of internal controls
 - Ineffective internal controls
 - Inadequate internal controls



Internal Controls, COSO Framework

- COSO definition of internal controls
- Internal control is broadly defined as a process put in place by an entity's board of directors, management and other staff designed to provide reasonable assurance regarding the achievement of objectives in the following categories:



Internal Controls, COSO Framework

- Effectiveness and efficiency of operations
 - Address the basic business objectives, including performance and safeguarding of assets



Internal Controls, COSO Framework

- Reliability of financial reporting
 - Relates to the preparation of reliable published financial statements.



Internal Controls, COSO Framework

- Compliance with laws and regulations



Internal Controls, COSO Framework

- These distinct but overlapping categories address different needs and allow a directed focus to meet them
- Internal control systems operate at different levels of effectiveness and consist of five interrelated components



Internal Controls, COSO Framework

■ Control Environment

- The control environment sets the tone of the organization. It is the foundation for all the other components of internal control, providing discipline and structure



Internal Controls, COSO Framework

■ Risk Assessment

- The identification and analysis of relevant risks to the organization's objectives, forming the basis for determining how risks should be managed



Internal Controls, COSO Framework

- Control activities
 - These help ensure actions are taken to address identified risks and include approvals, authorizations, verifications and reviews



Internal Controls, COSO Framework

- Information and communication
 - Effective communication must occur. All staff must receive a clear message from top management that control responsibilities must be taken seriously.



Internal Controls, COSO Framework

- Monitoring
 - Internal controls must be monitored to ensure continued effectiveness



Internal Controls

- Effective internal controls help an entity achieve success, not ensure it. Internal controls provide only reasonable not absolute assurance that the entity will achieve its objectives. Breakdowns in effectiveness can occur when the control is not designed well or circumvented. Resource constraints must also be factored in.



Components of COSO Framework



COSO PYRAMID



COSO CUBE

- Soft Controls**
- “People”
 - Openness
 - Shared Values
 - Clarity
 - Commitment to Competence
 - Honesty
 - High Expectations
 - Communications

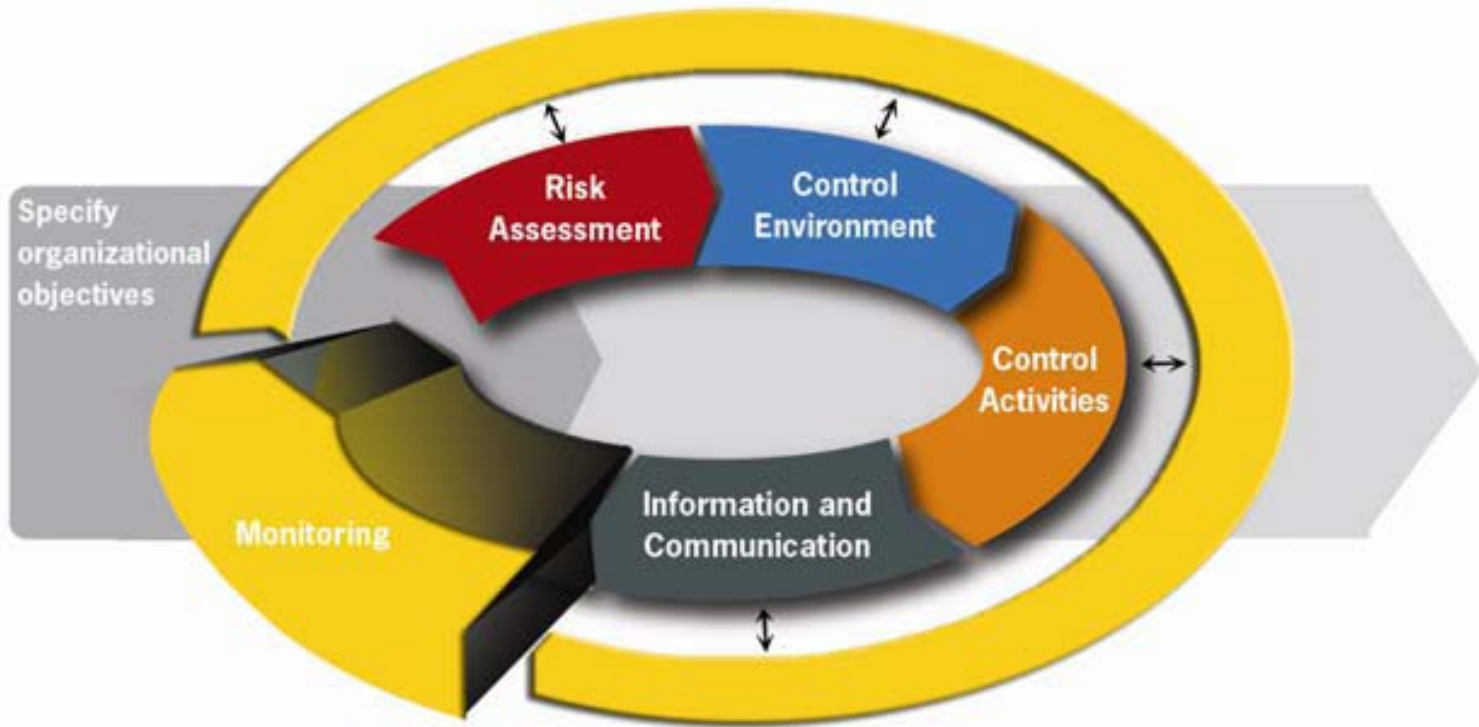


Hard Controls

- “Activities”
- Reviews
 - Inspections
 - Policies
 - Reconciliations
 - Structure
 - Limits of Authority
 - Userids and Password
 - Physical Counts



Internal Control as a Process



Ethics are important



Ethical foundation

- An endless number of ethical situations can arise when making business decisions. Some are clear and some not. While it is impossible to foresee all issues that may arise, a general understanding can be a strong guide.



Business Ethics

- Tone at the TOP
 - Act with integrity
 - Practice and promote ethics
- Use judgment
- Follow the law



Business Ethics

Over the recent past, ethical awareness in the workplace has risen as well as scrutiny from governing officials. Penalties are severe.



Questions

- Any questions or comments?
- Thank you for your time and attention



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