

# Minimizing Fraud by Maximizing Internal Controls

*How to Reduce the Risk of Fraud by Optimizing Your  
Internal Controls Designed for the Number of  
Business Office Staff You Have Available*



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# Introductions

Andy Mace, CPA, CFE (Speaker)  
- *Vice President, Meristem Advisors LLC*



Chuck Gusswein, CPA, CFE (Speaker)  
- *Audit Manager, Wipfli LLP*

The logo for WIPFLI consists of the word "WIPFLI" in white, all-caps, sans-serif font centered within a solid blue rectangular background.

WIPFLI

Betsy Allen, CPA (Moderator)  
- *Partner, Miller Cooper & Co., Ltd.*



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# Internal Controls

Defined – A process, effected by an entity’s Board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws & regulations



# Roles

Board – Oversees management’s performance and has ultimate responsibility

Management – Primarily responsible

Staff – Executes controls (along with Management)

Auditor – Not part of a District's system of internal controls



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# Constraints

Cost – Optimal cost to implement proper controls is beyond a District's budget

Documentation – Districts often don't maintain up-to-date descriptions of key control procedures

Turnover – Controls get lost over time as employees change

Understaffed – Today's crisis does not leave time for control work



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# Elements of Fraud:



Opportunity

Pressure/Motivation

Rationalization



# Opportunity

Poor internal controls:

- Access to the asset
- Ability to cover it up
- Lack of review
- No one knows how much **should** be there
- Improper segregation of duties



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# Pressure/Motivation

## Needs and Wants:

- Problems at home
- Spouse out of work
- Lavish lifestyle
- Gambling
- Drugs





# Rationalization

## Attitudes/Justifications:

- I was promised a raise / I'm mad at them
- My child needs this
- I don't always claim overtime
- They'll never notice / they have plenty
- I'm just borrowing



# Segregation of Duties

Authorization to execute a transaction (A)

Recording of the transaction (B)

Custody of or access to the related asset (C)



# Segregation of Duties

**No one person should do all of these:**

- Initiate the transaction
- Record the transaction
- Handle assets
- Approve the transaction
- Reconcile balances
- Review reports

Even in the smallest LEAs –at least Two Sets of EYES



# Cash Receipts – ISBE Guide

Example I: Central office with two staff members – Bookkeeper and Secretary.

## Bookkeeper: (B)

- Enters transaction data into the books from detailed receipts listings
- Reconciles monthly bank statements

- (A) – Authorization
- (B) – Bookkeeping
- (C) – Custody

## Secretary: (C)

- Opens mail
- Sorts receipts by source and fund
- Prepares detailed listings of cash receipts by source and fund
- Makes daily deposits of cash receipts
- Compares detailed listing of cash receipts to postings in the accounting records

## Fiscal Officer: (A)

- Signs detailed cash receipts list prior to deposits and transaction entry into the accounting records
- Periodically compares duplicate deposit slips with cash book
- Reviews and approves monthly bank statement reconciliations



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# Cash Receipts – ISBE Guide

Example II: Central office with three staff members – Bookkeeper, Position I, and Position II

## Bookkeeper: (B)

- Enters transactions data into the books from detailed receipts listing

- (A) – Authorization
- (B) – Bookkeeping
- (C) – Custody

## Position 1: (C)

- Opens mail (along with Position 2)
- Sorts receipts by source and fund
- Prepares detailed listings of cash receipts by source and fund (along with Position 2)
- Prepares deposit slips
- Makes daily deposits of cash receipts

## Position 2: (C)

- Opens mail (along with Position 1)
- Prepares detailed listing of cash receipts by source and fund (along with Position 1)
- Compares detailed listing of cash receipts to postings in the accounting records
- Reconciles monthly bank statements

## Fiscal Officer: (A)

- Signs detailed cash receipts list prior to deposit and transaction entry into the accounting records
- Periodically compares duplicate deposit slips with cash book
- Reviews and approves monthly bank statement reconciliations



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# Cash Receipts – ISBE Guide

Example III: Central office with four staff members – Bookkeeper, Position 1, Position 2, and Position 3

Bookkeeper: (B)

- Enters transaction data into the books from detailed receipts listing

- (A) – Authorization
- (B) – Bookkeeping
- (C) – Custody

Position 1: (C)

- Opens mail (along with Position 2)
- Sorts receipts by source and fund
- Prepares detailed listing of cash receipts by source and fund (along with Position 2)
- Prepares deposit slips
- Makes daily deposits of cash receipts

Position 2: (C)

- Opens mail (along with Position 1)
- Prepares detailed listing of cash receipts by source and fund (along with Position 1)
- Compares detailed listing of cash receipts to postings in the accounting records

Position 3: (C)

- Prepares monthly bank reconciliations
- Periodically compares duplicate deposit slips with cash book

Fiscal Officer: (A)

- Signs documentation (detailed cash receipts list) prior to transaction entry into the accounting records
- Reviews and approves monthly bank statement reconciliations



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# Cash Disbursements – ISBE Guide

Example I: Central office with staff members – Bookkeeper and Secretary

## Bookkeeper: (B)

- Enters transaction data into the books
- Reconciles monthly bank statements
- Mails checks
- Prepares bills payable list

## Secretary: (C)

- Audits invoices and bills for mathematical computation before checks are written (Purchase requisition, purchase order, receiving report, and invoice should be reviewed and all amounts verified.)
- Compiles data for bills payable list
- Prepares checks after board approval of bill list

## Fiscal Officer: (A)

- Compares checks with the documentary evidence before the signature is affixed
- Directs checks to treasurer for signature
- Reviews and approves monthly bank statement reconciliations

- (A) – Authorization
- (B) – Bookkeeping
- (C) – Custody

## Board of Education/Trustee: (A)

- Approve bills payable list



# Cash Disbursements – ISBE Guide

Example II: Central office with three staff members – Bookkeeper, Position 1 and Position 2

## Bookkeeper: (B)

- Enters transaction data into the books
- Reviews bank reconciliations
- Prepares bills payable list

- (A) – Authorization
- (B) – Bookkeeping
- (C) – Custody

## Position 1: (C)

- Audits invoices and bills for mathematical computation before checks are written (Purchase requisition, purchase order, receiving report, and invoice should be reviewed and all amounts verified.)
- Compiles data for bills payable list
- Mails checks

## Board of education/Trustees: (A)

- Approve bills payable list

## Position 2: (C)

- Prepares checks after board approval of bill list
- Compares checks with the documentary evidence before the signature is affixed
- Reconciles monthly bank statements

## Fiscal Officer: (A)

- Directs checks to treasurer for signature
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# Payroll – ISBE Guide

Example I: Central office with two staff members – Bookkeeper and Secretary

## Bookkeeper:

- Performs payroll computations
- Enters transaction data into accounting records
- Processes all withholdings
- Compares net check amounts to payroll ledger
- Maintains payroll ledger

## Secretary:

- Maintains personnel data records (Tax records, authorized withholdings, etc.)
- Reviews payroll calculations
- Prepares checks

## Fiscal Officer:

- Signs contracts of salaried employees
- Approves hourly wage report
- Compares net check amount to payroll ledger before signature is affixed (on a sample basis)
- Directs checks to treasurer for signature

## Board of education/Trustees:

- Regularly approve employment documents of all personnel
- Set salary amounts or wage rates for all personnel

## Principals:

- Prepare hourly wage reports
- Distribute payroll checks



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# Payroll – ISBE Guide

Example II: Central office with three staff members – Bookkeeper, Position 1 and Position 2

## Bookkeeper:

- Enters transaction data into accounting records
- Compares net check amounts to payroll ledger

## Position 1:

- Reviews payroll computations
- Prepares checks

## Position 2:

- Performs payroll computations
- Processes all withholdings
- Maintains payroll ledger
- Maintains personnel data records (Tax records, authorized withholdings, etc.)

## Fiscal Officer:

- Signs contracts of salaried employees
- Approves hourly wage reports
- Compares net check amount to payroll ledger before signature is affixed (on a sample basis)
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# Investments – ISBE Guide

Example: Central office with two or more staff members – Bookkeeper and Secretary

## Bookkeeper: (B)

- Performs periodic analysis of cash balances to determine surplus cash on hand and feasibility of investments
- Enters investment transaction data into books
- Maintains subsidiary investment records
- Performs periodic reconciliation of detailed investment records with control subsidiary ledger
- Prepares monthly investment report

- (A) – Authorization
- (B) – Bookkeeping
- (C) – Custody

## Secretary: (C) or Position 1 (2, 3, 4, etc.)

- Receives funds from the sale of investments and makes deposits
- Prepares checks for the purchase of investments
- Performs periodic review of investment subsidiary ledger
- Receives interest on investments and makes deposits

## Board of Education/Trustees: (A)

- Approve investment policies

## Fiscal Officer: (C)

- Performs periodic analysis of cash balances to determine surplus cash on hand and feasibility of investments
- Approves investment transactions
- Acts as investment custodian
- Purchases and sells investments (after board approval)
- Appraises investments (monthly)
- Develops investments policies



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# Petty Cash/Revolving Account – ISBE Guide

Example: Central office with two or more staff members – Bookkeeper and Secretary

## Bookkeeper: (B)

- Reviews petty cash vouchers
- Prepares voucher for reimbursement
- Prepares reimbursement check (payable to petty cash fund custodian)
- Enters data (from reimbursement voucher) into accounting records

- (A) – Authorization
- (B) – Bookkeeping
- (C) – Custody

## Secretary/Principal: (C)

- Serves as the petty cash fund custodian
- Reviews and countersigns petty cash vouchers
- Deposits reimbursement check to replenish petty cash fund

## Board of Education/Trustees: (A)

- Fix dollar amount of Imprest fund
- Review expenditures from fund (on detailed bill list, when fund is reimbursed)

## Fiscal Officer: (A)

- Approves voucher for reimbursement
- Signs check
- Conducts surprise petty cash counts



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# Questions ... ??

*We thank **YOU** for your time!*



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