Welcome to Internal Controls Training

Governor's Finance Office

Division of Internal Audits

Compliance Section / Financial Management

Class Structure

Class consists of:

- Pre-Test
- Presentation
- Post-Test

Test results are used as a performance measure of this class

Presentation Overview

- Internal Controls
  - What?
  - Why?
  - How?
- Internal Controls Statutory Requirements – State of Nevada
- Fraud
- Major Fiscal Areas
- Other Fiscal Processes

Pre-Test

Why we are here today

NAC 353A.100

Who Is Required to Attend?

- The head of each Agency and employees who administer budgetary accounts, within 90 days of being hired/promoted/transferred, must attend training.
- Any other employee required to attend by the Division of Internal Audits or the head of the agency.

What are Internal Controls?

Definition of Internal Controls

- Internal controls are the mechanisms, rules, and procedures implemented by a company (agency) to ensure the integrity of financial information, promote accountability, and prevent fraud.
- Internal control is a process designed to provide reasonable assurance
- Internal control is affected by the actions of people within the organization as they implement policies and procedures.

Why we do it?

Internal Control helps the agency carry out its mission responsibly

- Achieve the agency's objectives -
  Deliver services accurately, consistently, and timely

- Safeguard public resources -
  Agency's assets (funds, information, equipment, etc.)

- Accomplish agency's responsibilities -
  - Comply with applicable statute, regulations, policies and procedures
  - Produce complete and accurate records

Support Statewide Accountability

- Weak internal controls at the agency level can result in findings reported in the Statewide Single Audit.

How we do it?

NRS 353A.020 requires the State to adopt a **uniform system of internal accounting and administrative control** for State agencies.

Each agency is responsible for developing written procedures to carry out that system.

- The required system of internal controls includes concepts that are **similar to those found in the COSO Framework**, including segregation of duties, safeguarding and limiting access to assets, authorization and recordkeeping procedures, and internal review.
- **SAM 2416 – Internal Control** lists the five standards of internal control

What is COSO?

- “COSO” = Committee of Sponsoring Organizations of the Treadway Commission.
- It is widely recognized as a leading authority on internal control.
- COSO provided a framework that helps organizations manage their work and protect their resources through five connected, essential components.

The Five Components – The Framework

1. **Control Environment**

   The foundation for internal control—the organization's culture, values, expectations, and accountability.

2. **Risk Assessment**

   Identifying and evaluating risks that could prevent the organization from achieving its objectives.

3. **Control Activities**

   The policies and procedures put in place to reduce risks and help ensure things are done correctly.

4. **Information and Communication**

   Making sure the right information gets to the right people, at the right time, so they can perform their responsibilities.

5. **Monitoring Activities**

   Regularly evaluating internal controls to make sure they are working as intended and correcting problems when identified.

#1 Control Environment

Tone at the Top – Leadership and Ethics

The foundation for all other components of internal control, providing discipline and structure.

Includes:

- Integrity and ethical values
- Organizational structure
- Management operating style and philosophy

#2 Risk Assessment

Risk Assessment is the process of identifying and evaluating risks that could prevent the agency from achieving its objectives.

Think: "What could go wrong?"

- **Identify your objectives** – What are we trying to accomplish?
- **Identify the risks** – What could prevent us from accomplishing it?
- **Assess the risks** – How likely is it to happen, and what would be the impact?
- **Determine how to respond** – What controls can we put in place to reduce the risk?
- **Consider changes** – Have changes in staff, systems, laws, processes, or responsibilities created new risks?

You cannot design effective controls until you understand the risks you are trying to control.

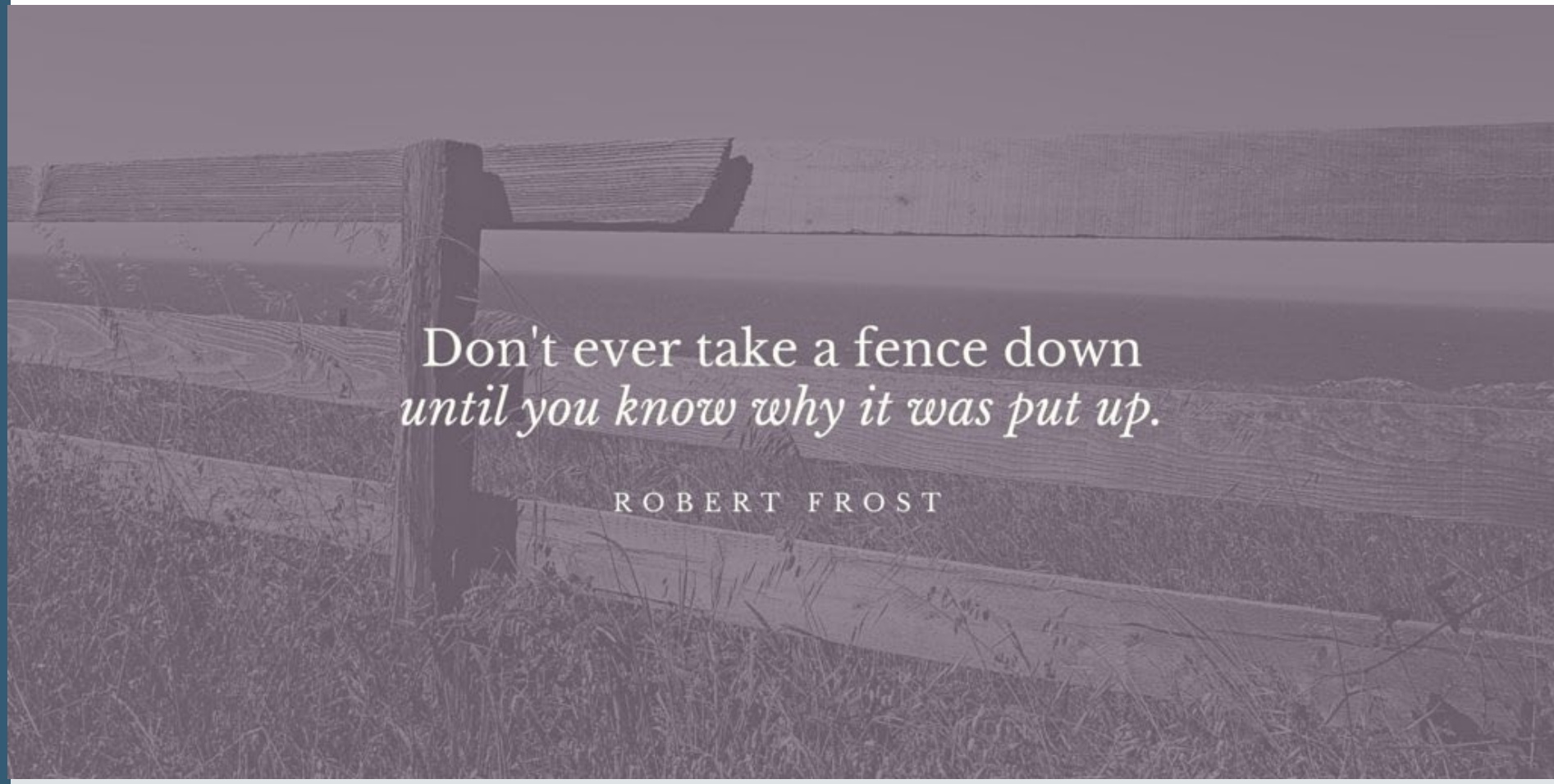
#3 Control Activities

Control Activities are the actions, policies, and procedures put in place to help reduce risks and ensure management's directives are carried out.

Think: "What are we doing about the risk?"

- **Approvals and authorizations** – Make sure transactions and activities are properly approved.
- **Segregation of duties** – Divide key responsibilities so one person does not control an entire process.
- **Reconciliations and reviews** – Compare information and review work to identify errors or unusual activity.
- **Physical and system access controls** – Limit access to funds, property, records, and information systems.
- **Policies and procedures** – Clearly establish what should be done, how it should be done, and who is responsible.

Control activities are the actions we put in place to prevent or detect things that could go wrong.


Don't ever take a fence down
until you know why it was put up.
ROBERT FROST

#4 Information & Communication

Information & Communication means obtaining and sharing relevant, accurate, and timely information so employees can perform their responsibilities, and management can make informed decisions.

Think: "Do the right people have the right information at the right time?"

- **Relevant and reliable information** – Use accurate and complete information to support operations and decisions.
- **Internal communication** – Make sure employees understand their responsibilities, procedures, and internal controls.
- **Upward communication** – Employees should be able to communicate problems, concerns, and control weaknesses to management.
- **Timely reporting** – Provide information soon enough for management to identify issues and take appropriate action.

Internal controls cannot work effectively if the right information does not reach the right people at the right time.

#5 Monitoring Activities

Monitoring Activities are the ongoing or periodic evaluations used to determine whether internal controls are in place and working as intended.

Think: "Are our controls working?"

- **Ongoing monitoring** – Supervisors and employees regularly review activities as part of normal operations.
- **Periodic evaluations** – Perform separate reviews or assessments to evaluate whether controls continue to be effective.
- **Identify deficiencies** – Recognize when a control is missing, no longer working, or needs improvement.
- **Communicate problems** – Report control weaknesses to the appropriate level of management.
- **Take corrective action** – Address identified problems and follow up to make sure they are corrected.

Internal controls are not "set it and forget it" they must be monitored and adjusted as processes, people, systems, and risks change.

Building an Effective System



How do we put these components into practice?

COSO further explains the five components through the 17 supporting principles:

- Each of the 5 components has specific principles associated with it.
- The principles help explain what should be present for that component to function effectively.



Think of the **five components as the big picture**, and the **17 principles as the supporting concepts underneath them.**

17 PRINCIPLES OF THE COSO FRAMEWORK



Don't Worry — You Don't Have to Memorize All of This!

That's a lot to absorb… Who is going to remember all of this?



The Good News
Use the SAQ as Your Guide!

DIA simplifies internal control design and implementation through the **Self-Assessment Questionnaire (SAQ)**.

- If you can appropriately answer **"Yes"** to the applicable questions, you can have **reasonable assurance that appropriate internal controls are in place and functioning as intended.**
- A **"No" does not automatically mean noncompliance.**
- When you answer **"No,"** ask
  - **What can we do/change to make this a "Yes"?**
  - If making it a "Yes" is not practical, **what compensating control can we put in place to address the risk?**

Remember:
The goal is to identify the risks and make sure appropriate controls are in place to address them.

Internal Controls
State of Nevada

Responsibility of internal controls falls on **agency management**

Including:

- Design
- Implementation
- Monitoring

Internal Controls
State of Nevada

Internal Monitoring Requirements

- NRS 353A.025 and SAM 2418

  Biennial Report on Internal Controls

  - Biennially complete SAQ's by July 1st on each even numbered year – Executive Branch
  - Biennially complete the Testing of Transactions
  - Includes systematic reviews of
    - Written procedures
    - Actual processes

REPORT ON INTERNAL CONTROLS
JULY 1, 2026

Types of Internal Controls

There are three types of Internal Controls that are essential for an effective system:

- Preventative - *Before*

  Minimize opportunities for unintentional errors or intentional fraud

- Detective - *After*

  Discover small errors before they become big problems

- Corrective - *Detect Risk and Respond*

  Detect if a risk is present and elicit a response and/or corrective action

Preventative Internal Controls

- Segregation of Duties

  Revenues - Receiving of funds and depositing of funds

  Purchasing - Ordering of goods and receiving of goods
- Approvals and Authorizations

  - Purchase Order approvals

  - Approval 1 and Approval 2
- Security of Assets

  - Locking up employee files, inventory, etc.

TRUST is not an Internal Control

Detective Internal Controls

- Reconciliations
  - BSR; Bank reconciliations; A/R reconciliations
- Conduct physical inventories
- Audits and reviews
  - Internal or external
- DIA Compliance Reviews

Corrective Internal Controls

- Requiring a corrective action plan for internal controls not operating as designed
- Monitoring activity through review of reports
  - Compare current performance to budget or forecasts
- Often results from internal or external audits or DIA Compliance Reviews

Fraud

Any intentional act characterized
by deceit, concealment, or violation of trust
perpetrated by individuals or organizations
to secure personal or business advantage

Fraud Mitigation

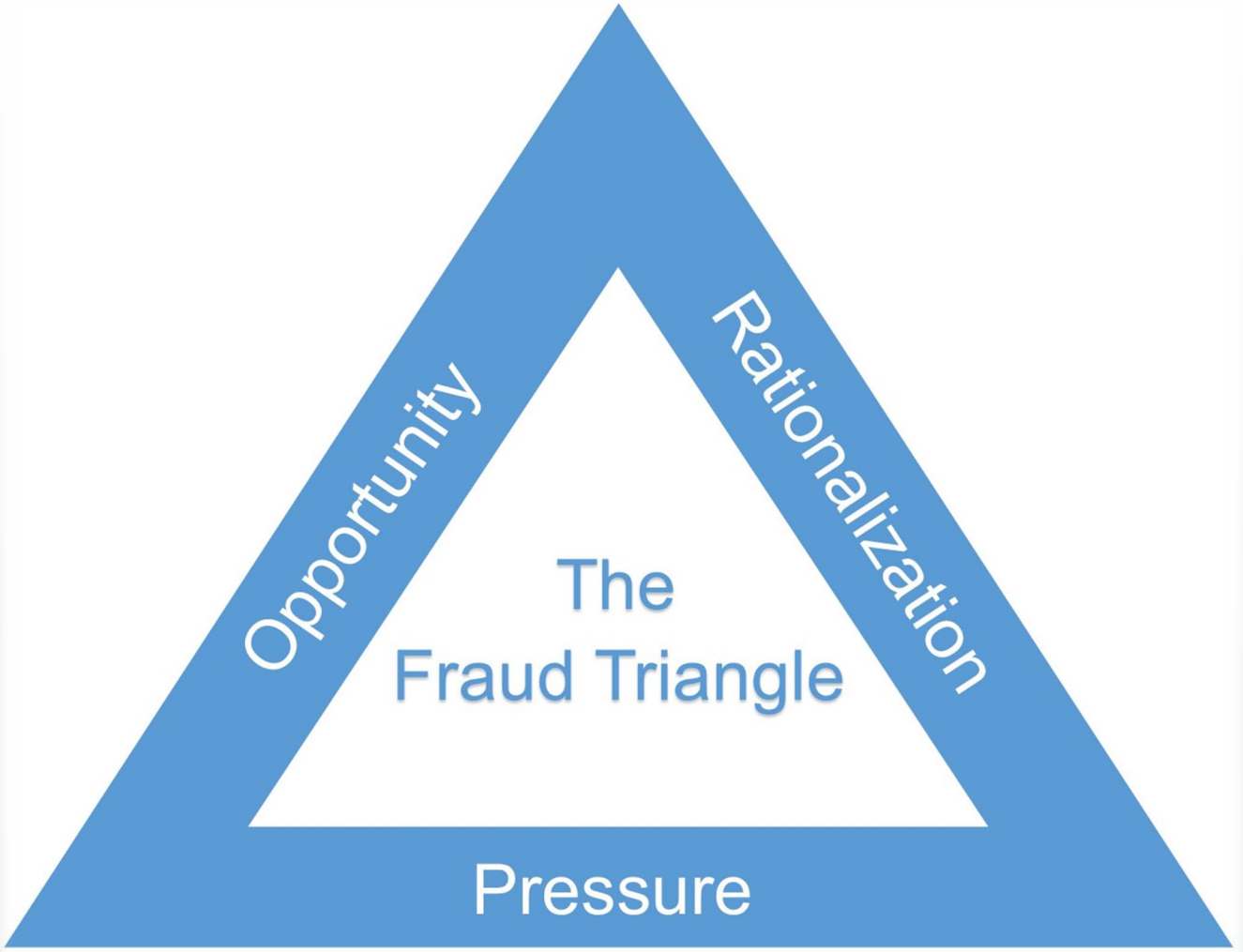
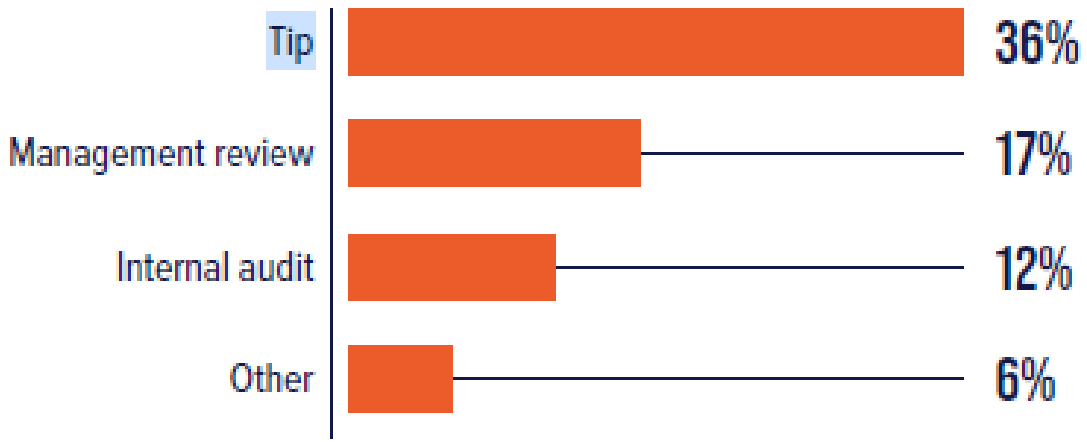


FIG. 111 How is occupational fraud initially detected in the United States and Canada?



- Most common source is usually a tip from a **fellow employee**

Any fraud cases in the news ?

Occupational Fraud

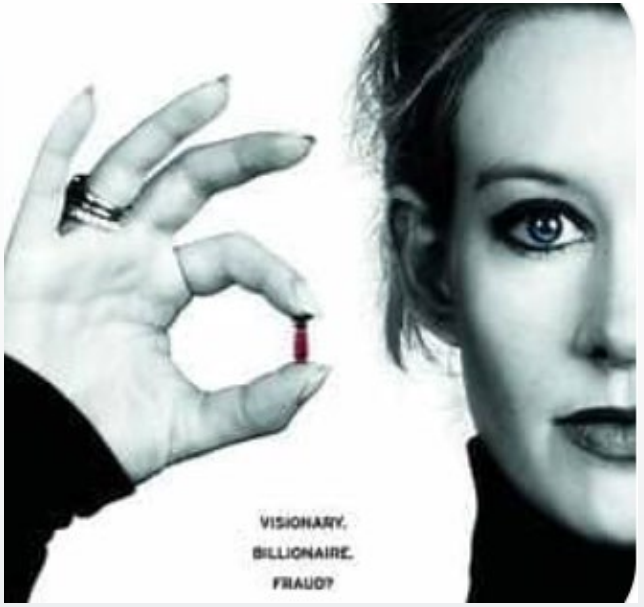
Other Frauds

High Profile Fraud Cases

- Theranos – Elizabeth Holmes

  Health company claimed revolutionary blood-testing technology

  - Misled investors on innovation
  - Wire fraud
  - 11-year prison sentence
  - Hulu miniseries *The Dropout*



- City of Dixon, Illinois – Comptroller Rita Crundwell
  - 53.7 million embezzled
    - Taxpayer funds
  - 22+ years ongoing fraud
  - 19-year prison sentence
- Netflix, *All the Queen's Horses*



State of Nevada – Reporting Fraud, Waste & Abuse

775-687-0150

The State of Nevada will not tolerate fraud, waste, or abuse of state and federal funds. Use the **confidential** hotline or email to report incidents.

iaudits@finance.nv.gov

Governor's Finance Office
Division of Internal Audits

Fraud Hotline NRS 353A.049

What to Report

Reportable situations include:

- Creating fictitious vendors or employees
- Falsifying invoices or transactions
- Executing related party transactions
- Receiving kickbacks
- State-funded travel that is not consistent with job duties
- Incomplete support for payment, i.e., no hotel receipt for travel expense claim
- Unusual purchases or purchases not included in the approved budget
- Management override of controls
- Unusually close relationship with a vendor

Don't you need evidence?





Major Fiscal Processes

- Revenues & Accounts Receivable
- Purchasing & Expenditures
- Procurement Cards
- Travel
- Contracts

Internal Controls for these processes are covered in detail through their respective Self-Assessment Questionnaires (SAQ)

Budget.nv.gov/IAudits/About/FinancialMgmt/SAQ/

Revenues & Accounts Receivable

Revenue handling consists of four processes:

- Receiving
- Depositing
- Recording
- Reconciling

Revenues & Accounts Receivable

Receiving:

- Record/log cash and checks immediately
- Endorse checks immediately upon receipt
- Approval by supervisor for all voided/refunded transactions

Depositing:

- Segregate depositing from receiving
- Secure funds in locked cabinet/safe until deposit
- NRS 353.250 - Bank Deposits
  - Deposit funds at least weekly on/before Thursday
  - $10k or more - next working day

Revenues & Accounts Receivable

SAM 2602 State Accounting System

Recording:

- Segregate recording from receiving
- CRs (Cash Receipts) should be keyed into the state's accounting system the same day of deposit
  - Never later than 2 days after deposit
  - Date of deposit is the date of record
- Enter into internal budget tracking

Revenues & Accounts Receivable

Reconciling:

- Segregate from receiving and depositing
- Reconcile cash/check logs to deposits (CR)
- Reconcile deposits to Budget Status Report (BSR)
- Monthly – Review accounts receivable aging reports
  - A/R payments – limit access to ledger
- Sales
  - Permits, tags licenses– secure inventory, use pre-numbered forms

Purchasing & Expenditures

Control Procedures

- Segregate approving, ordering, and receiving functions
  - Ensuring a minimum of three separate employees perform these tasks

- Ensure Purchasing Division guidelines are followed.
  - Purchases must be tax exempt
  - Refer to State Purchasing Division's guidelines
    www.purchasing.nv.gov

Purchasing & Expenditures

Control Procedures

- Ensure approval to order and budgetary authority
- Verify items received
- Match - P.O., invoice, receiving document prior to payment
- Obtain supervisory approval for invoice payments
- Verify actual expenditures to Budget (DAWN)

Purchasing & Expenditures



Fraud Risks

Red Flags:

- High volume of purchases from a new vendor
- Purchases that bypass the normal procedures
- Vendor's address same as employee's
- Invoices for unspecified consulting or poorly defined services

Purchasing & Expenditures

Billing schemes - Most expensive type of employee theft

- Purchase real items for personal use
- Purchase non-existent items from fake vendors
- Fake claims or reimbursements
- Purchases that by-pass normal procedures

FRAUD

Example: Tal “Pete” Smith a former NDOT employee pled guilty to fraud after an investigation found he made more than $250,000 in illegal purchases and resold items for profit. Mr. Smith, was sentenced to 18 to 48 months in prison and was ordered to repay $250,639 to NDOT as part of a plea agreement.

Procurement Cards

SAM 0322

Use of P-Cards

- Must follow State Purchasing processes
  - Approval to purchase
  - Approval to pay
  - Receiving of goods/services

Procurement Cards

- Independent verification of receipt of merchandise
  - If independent verification cannot be obtained immediately, then compensating controls must be in place
- Only cardholder may utilize card if card is in individual name
  - Card may be in the agency's name
  - Agency cards must use checkout logs

Procurement Cards

Review of P-Card Statement

- Supervisor should review statement for
  - Split transactions
  - Billing errors
  - Sales tax
- Disputed charges
  - Statement must be paid in full (9th)
  - Disputes should be resolved in subsequent months

Travel

SAM 0200

Reimbursements

- Agency should ensure P&Ps are complete
  - Process for incidentals reimbursement
  - Use of correct GSA rates and per diem
  - If mileage is requested, is an independent verification of miles performed (i.e., Google maps attached to claim?)
  - Hours that meals may be claimed

Travel

SAM 0200

Reimbursements

- Claims must have supporting documentation attached for **all** line items
- At least annually, audit a sample of employee's claims to ensure:
  - P&Ps are being followed
  - Claims are mathematically correct
  - Sufficient documentation exists

Travel

SAM 0200

- Corporate Travel Cards (CBA/Ghost) **must only** be used for airfare
- Individual Travel Cards must only be used for travel related items normally reimbursed by the state
- Both cards' activities can and should be reviewed in WORKS

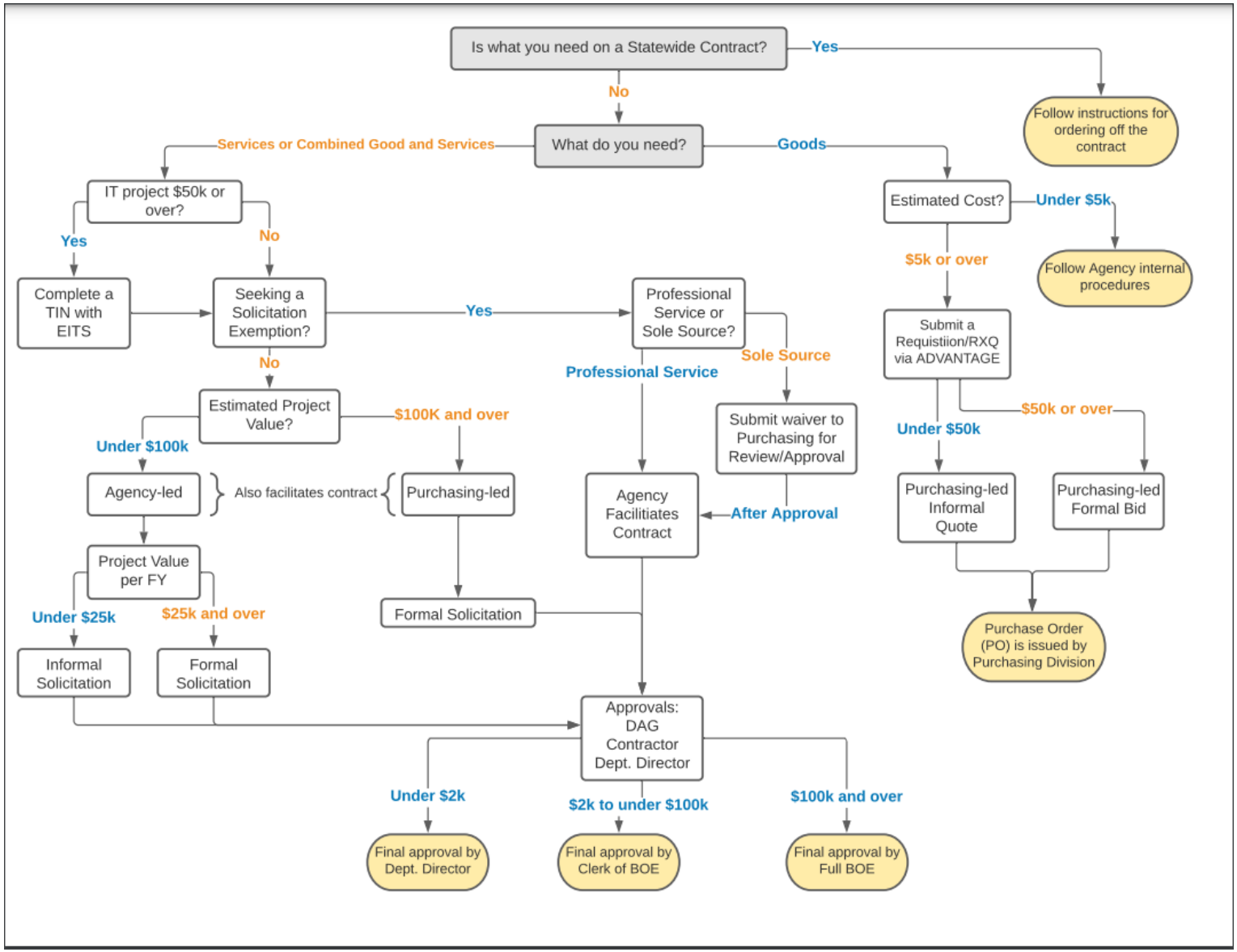
Contracts

SAM 0300

- Every agency entering into contracts must have a current certified Contract Manager.
  - Must be certified through State Purchasing class Contract Management Certification (CCM)

- *Contract processing takes time!*

  Please allow sufficient time to initiate contracts


Is what you need on a Statewide Contract?
Yes
Follow instructions for ordering off the contract
No
What do you need?
Services or Combined Good and Services
Goods
IT project $50k or over?
Yes
No
Complete a TIN with EITS
Seeking a Solicitation Exemption?
Yes
No
Professional Service or Sole Source?
Professional Service
Sole Source
Submit waiver to Purchasing for Review/Approval
After Approval
Agency Facilitiates Contract
Estimated Project Value?
Under $100k
$100K and over
Agency-led
Also facilitates contract
Purchasing-led
Project Value per FY
Under $25k
$25k and over
Informal Solicitation
Formal Solicitation
Formal Solicitation
Estimated Cost?
Under $5k
Follow Agency internal procedures
$5k or over
Submit a Requistiion/RXQ via ADVANTAGE
Under $50k
$50k or over
Purchasing-led Informal Quote
Purchasing-led Formal Bid
Purchase Order (PO) is issued by Purchasing Division
Approvals: DAG Contractor Dept. Director
Under $2k
$2k to under $100k
$100k and over
Final approval by Dept. Director
Final approval by Clerk of BOE
Final approval by Full BOE

Other Fiscal Processes

- Grants
- Inventory
- Outside Bank Accounts
- Petty Cash

Internal Controls for these processes are covered in detail through their respective Self-Assessment Questionnaires (SAQ)

Grants

SAM 3000

- Obtaining Grants - Follow all guidelines put forth by the Nevada Governor's Office of Federal Assistance, ofa.nv.gov
- Receiving Funds - Same as any other revenue. Follow revenue receiving internal control procedures
- Expending Funds - Ensure all expenditures are allowable under the terms of the grant. Follow purchasing and expenditure internal control procedures

Grants

SAM 3000

- Monitoring
  - Verifying invoices for proper costs
  - Ensuring funds are available in correct budget category
  - Ensuring sub-recipients comply with all grant terms
- Reporting - Follow all state and federal guidelines for grant reporting

Grants

SAM 3000

Office of Federal Assistance

775-684-0156

209 E. Musser St.
Carson City, Nevada 89701

Inventory

SAM 0326

Certain property must be tracked in the accounting system -

- Capital assets and fixed assets valued at $5,000 or more and a useful life of more than two years should be carried on the statewide inventory
- Computer equipment, including laptops, desktops, and servers, regardless of value

Inventory

SAM 0326

- Inventory counts must be performed by at least two members of staff, no less frequently than annually
- Unexplained variances between actual count and inventory list must be investigated and documented

Outside Bank Accounts

- Outside bank accounts must be approved by Board of Finance or statutory authority
- Purpose of bank account must be documented in agency policies and procedures
- Name of the account and financial institution must be submitted to the State Treasurer's Office
- Must follow state internal control procedures for revenues and expenditures

Petty Cash

SAM 2534

- Petty cash funds must be approved by Board of Examiners (BOE) or statutory authority
- Purpose of fund must be documented in agency policies and procedures
- Petty cash funds should be adequately safeguarded in a secure location with access limited to authorized personnel
- Disbursements from petty cash must be supported by original receipts



Questions