Internal controls: What they are and why they're important

Niles Kostick, Manager
Center for Government Innovation

AWC Budget Workshop
August 6, 2025

Sign up for our newsletter

About SAO

State Auditor
Pat McCarthy

- Non-audit services
  - Center for Government Innovation
  - Technical support
- Audit services
  - Performance & IT audit
  - State & local audit

Center for Government

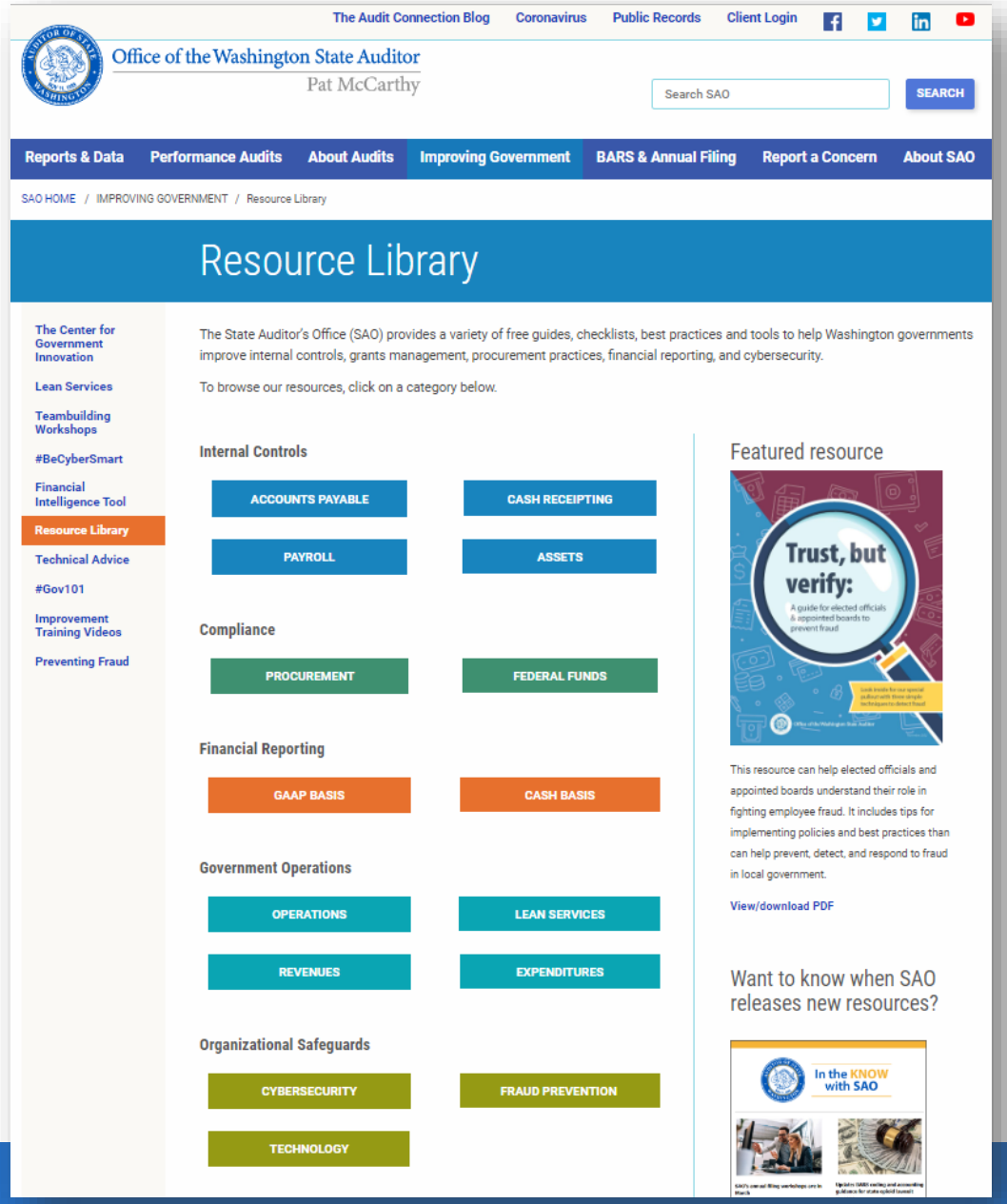
Innovation

No-cost Center services

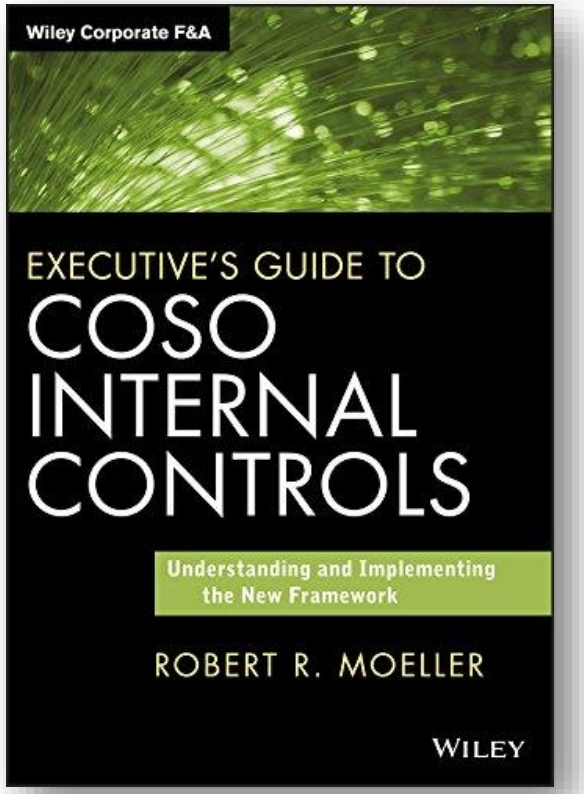
Resource Library

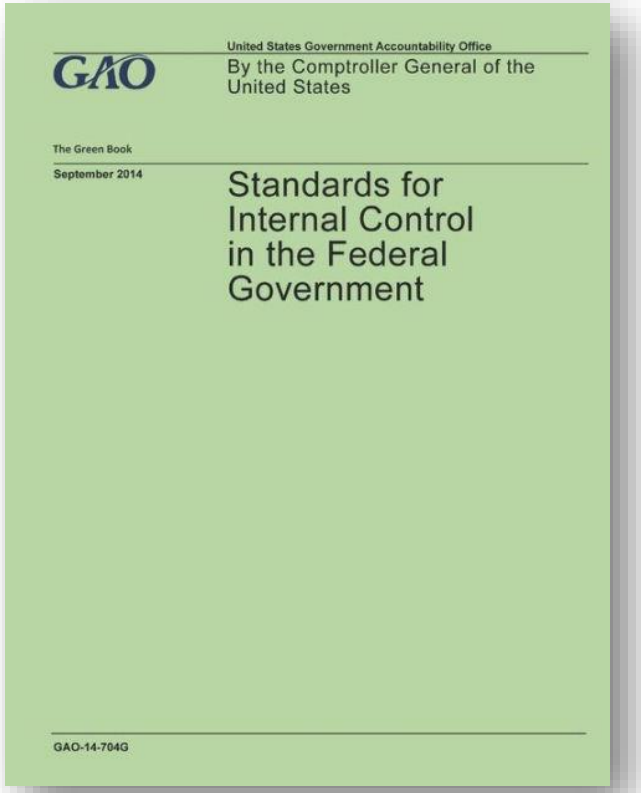
Coming soon! Updated:

- ✓ Segregation of Duties Guide
- ✓ Change Order Best Practice
- ✓ Bank Reconciliations Best Practice
- ✓ Responsible Bidder Checklist



Internal controls: The big picture





Internal controls: The big picture

“To help us get what we want”

Internal controls: The big picture

What do you want?

Internal controls: The big picture (cont.)

“To help us get what we want”

Some example objectives:

- ✓ Comply with state law and regulations
- ✓ Adhere to City policy
- ✓ Allow for efficient services and business continuity
- ✓ Ensure public funds are used appropriately
- ✓ Educate staff and reduce confusion

Internal controls: The big picture (cont.)

Leading causes of occupational fraud:

- 32% Lack of internal controls
- 19% Override of existing controls
- 18% Lack of management review
- 8% Poor tone at the top

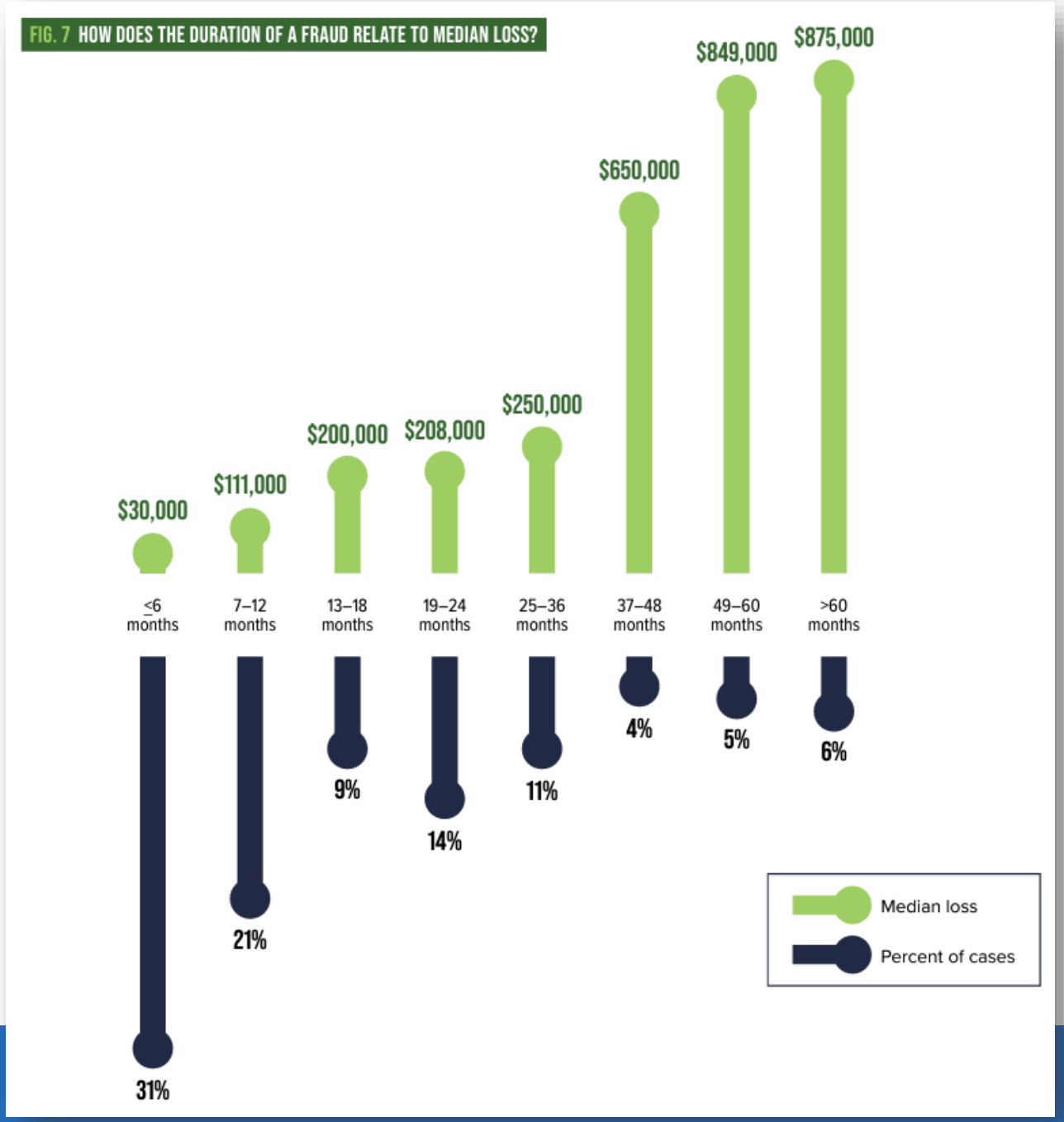
Internal controls: The big picture (cont.)

The Fraud Triangle

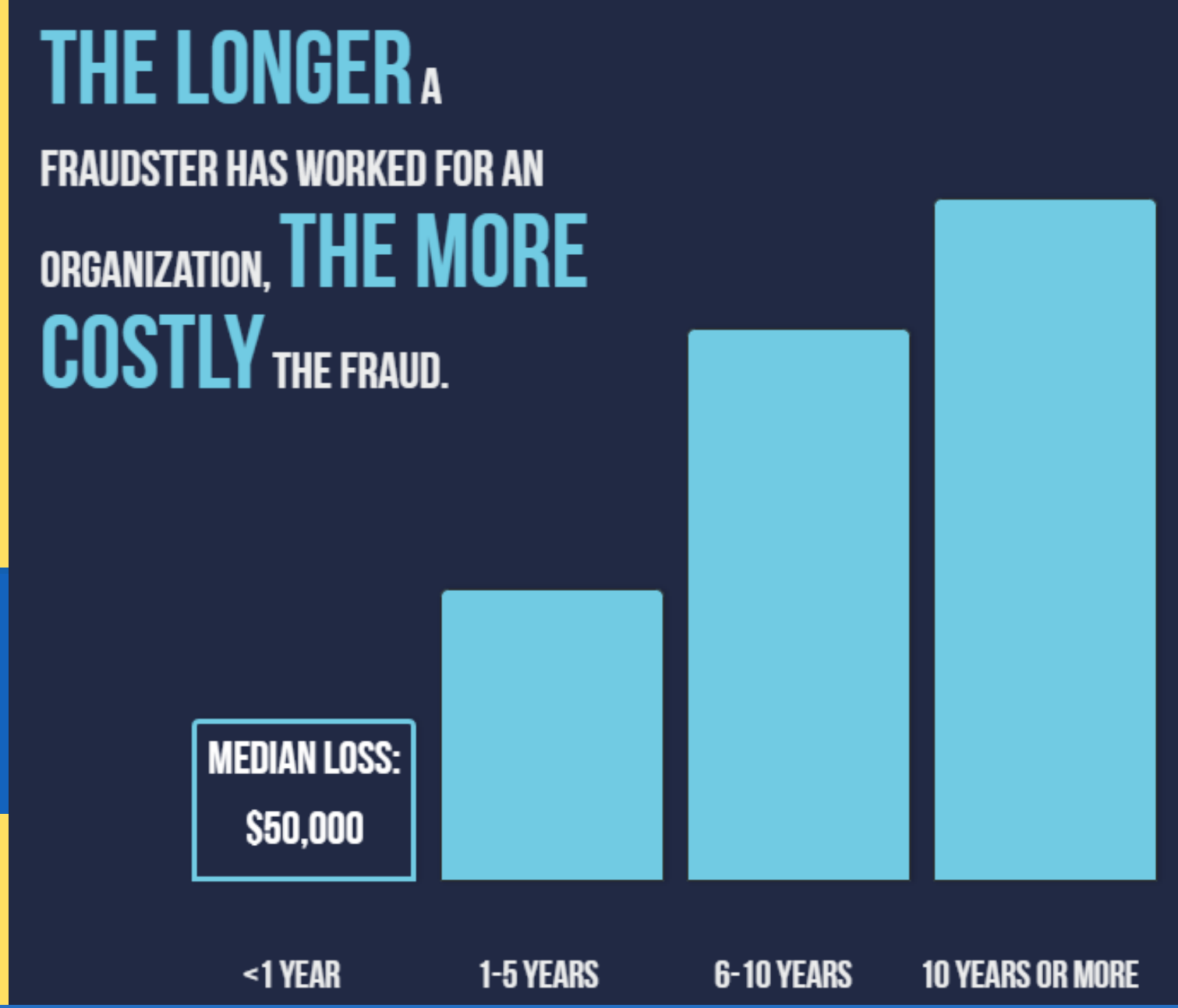
Internal controls: The big picture (cont.)

- Faster detection often leads to smaller loss
- Fast detection relies on adequate controls

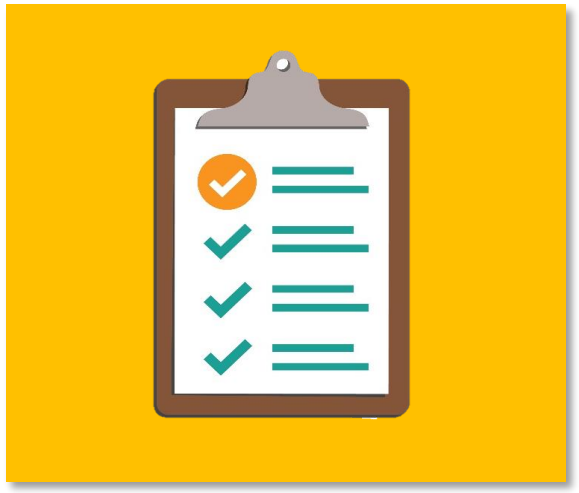
Internal controls: The big picture (cont.)



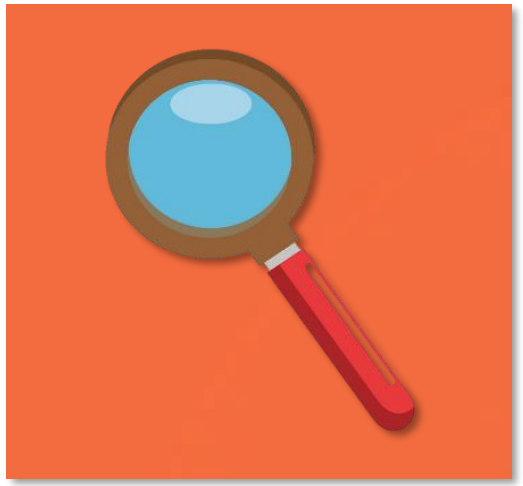
Internal controls: The big picture (cont.)



Internal controls: The big picture (cont.)



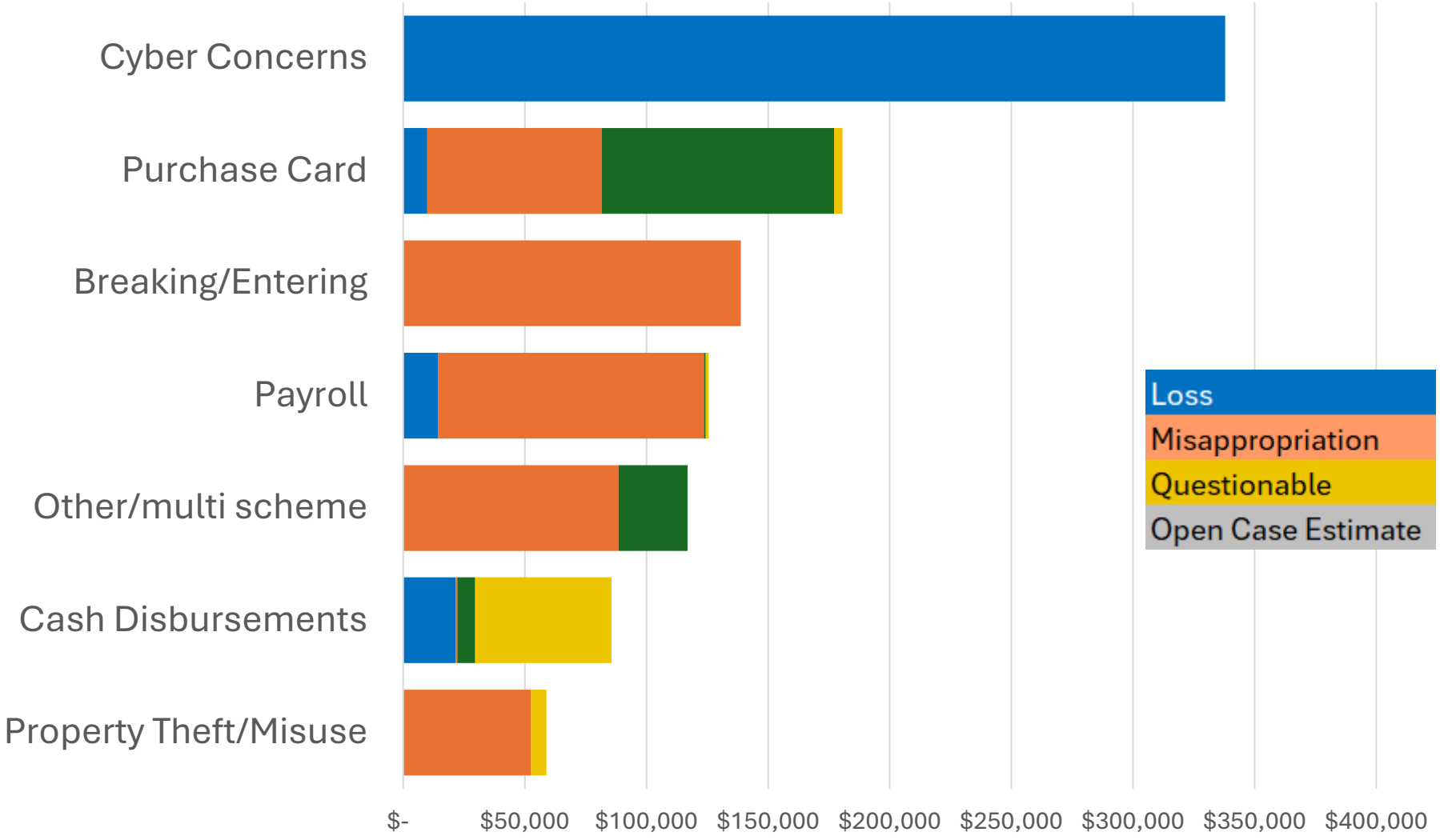
Preventative



Detective

Three simple prevention & detection reviews you can implement now

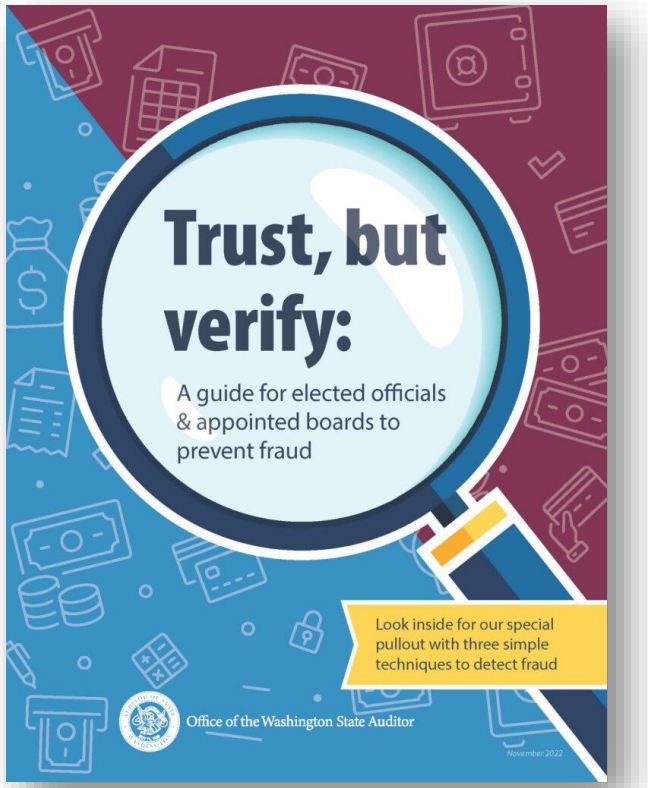
Most costly fraud schemes



Fraud prevention resource for elected officials & appointed board members

Key theme: Preventing fraud begins at the top

- Elected officials and appointed boards:
  - ➢Have a duty to understand their government's operations
  - ➢Play a key role in fighting fraud
  - ➢Have a responsibility to demonstrate a commitment to preventing, detecting and responding to fraud—which are the three main sections of the guide



The intersection of policy and process

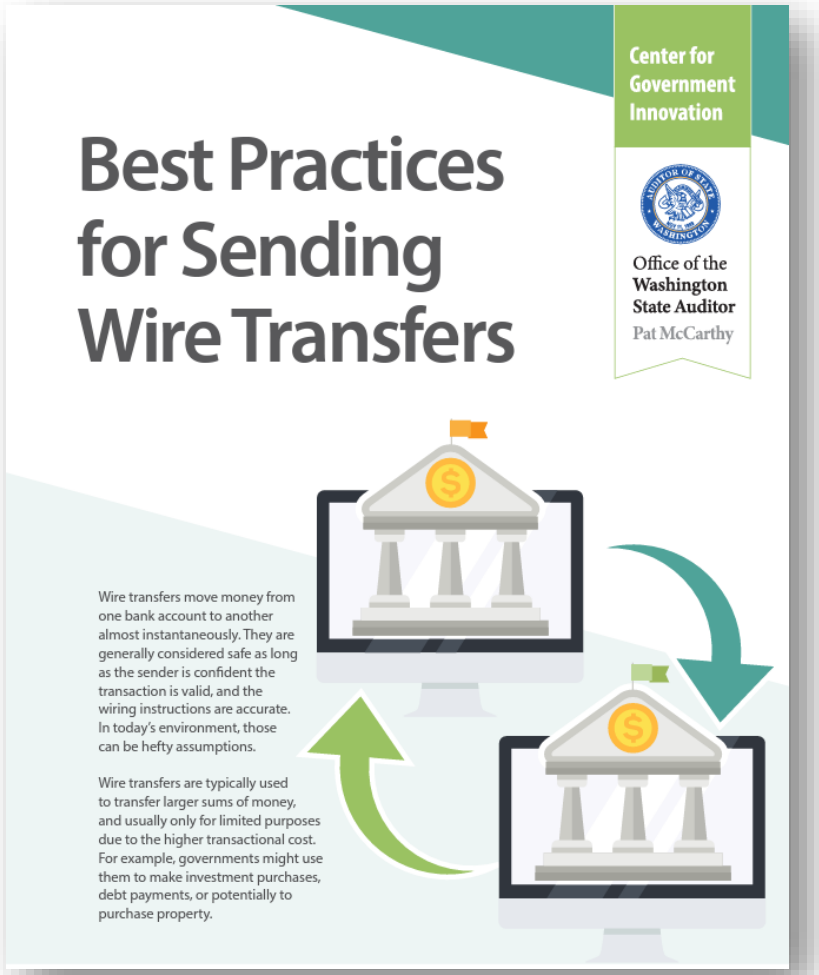
Policy (What and why)

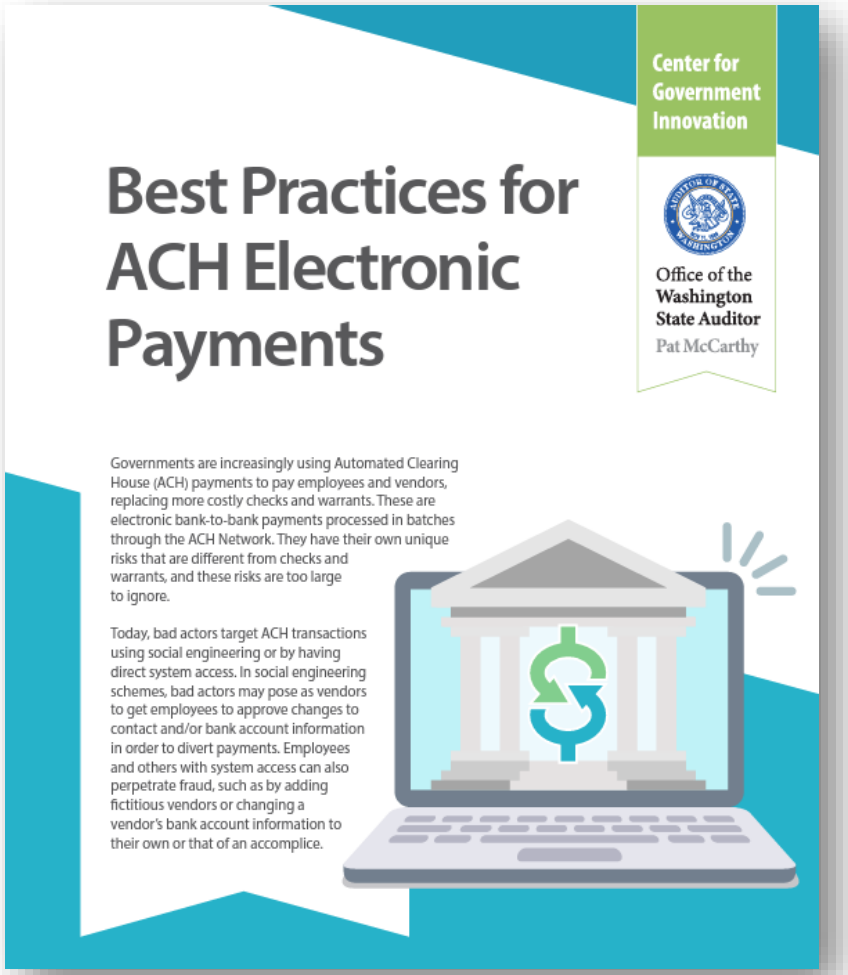
- High-level principles that set direction
- Ensures compliance, accountability, consistency
- **Example**: “All credit cards are for official business use only”

Process (How)

- Step-by-step instructions and structure
- Provides clear execution methods for achieving the policy (how we meet our high-level goals)
- **Example**: Card holders will review their own statements before submitting them for payment

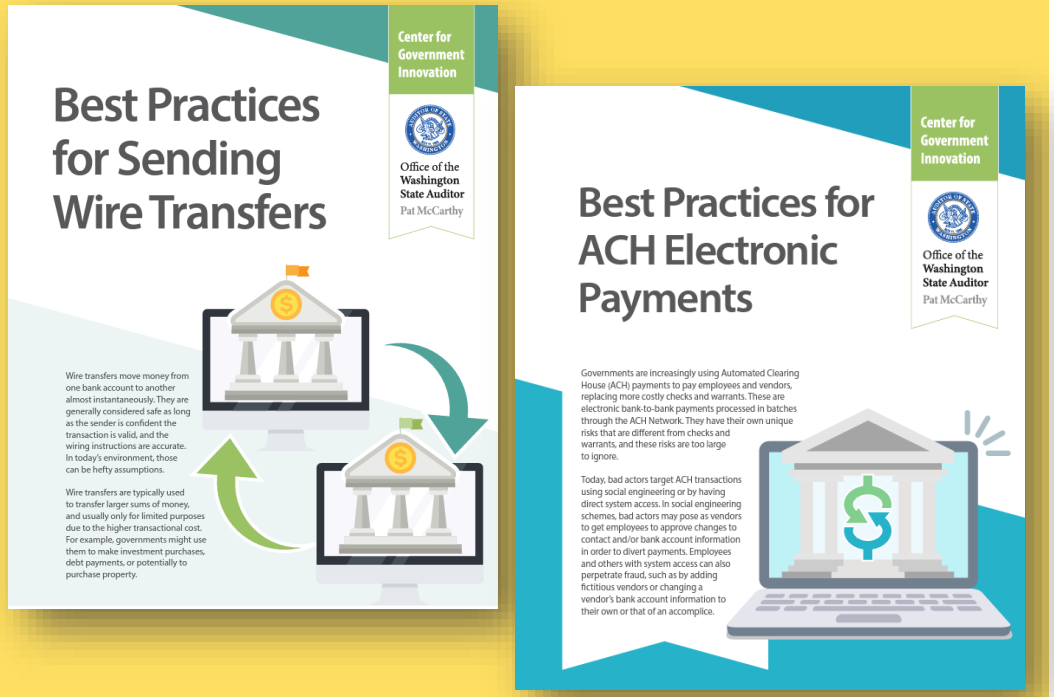
Center resources





What can you do?

- Don’t trust email. Literally, ever.
- Assume it’s a scam until you’re proven otherwise
- Request that employees make changes in person
- Vendors:
  - ➢Confirm via video call you initiate
  - ➢Provide contractors and vendors with a security key or passphrase they must provide for any contact for bank changes (do not send via email)



Reminders & best practices

- Robust policies that outline employee responsibilities, define controls over payee information, and review them annually
- Educate staff on social engineering tactics, and implement strong controls to limit chance one employee can fall victim
- Safeguard payee data, and segregate duties. Verify changes by going to the source on file.
- Utilize audit logs and user access to banking and system information

Reminders & best practices (cont.)

Credit card controls:

- Establish limits, require reconciliations by card holders, and require supervisors to review and hold card holders accountable
- Standardize the submission and review process. Clarify what proper support looks like
- Review and update the number of cards, cardholders, and limits at least annually
- Train cardholders and require certification

Credit card controls (cont.)

Before issuing cards…

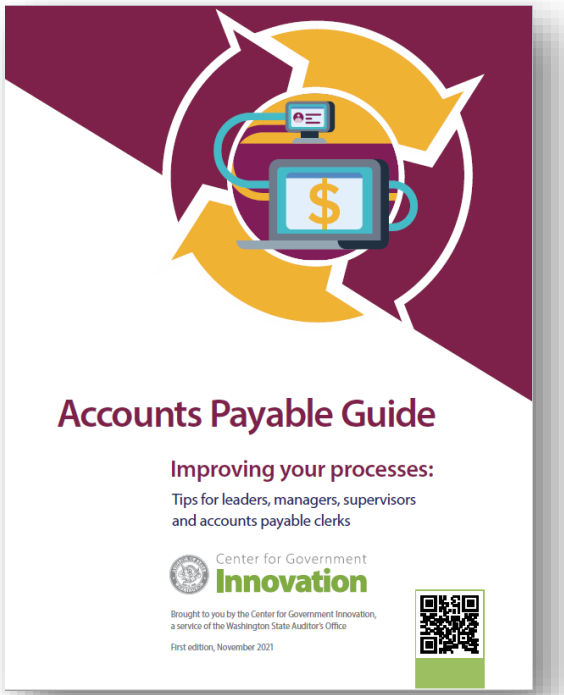
- Ensure cardholders have business need (Oprah doesn't run the District)
- Establish card limits based on spending expectations (limits loss)
- Require cardholder agreements
- Segregate the process to order and issue cards

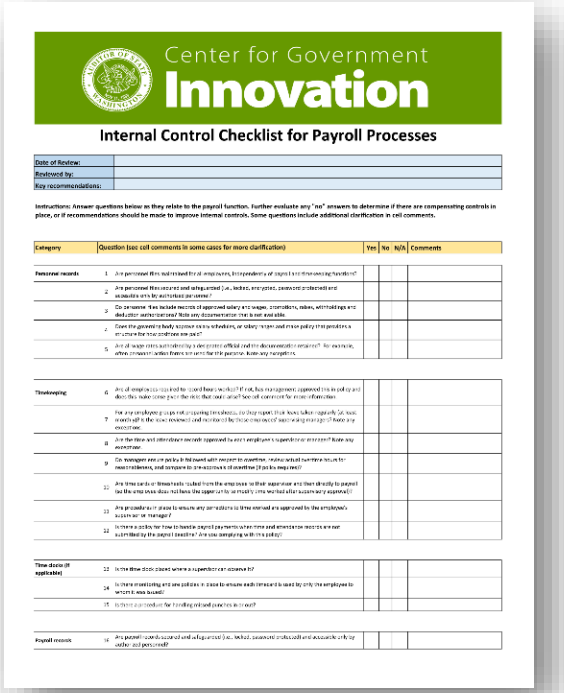
Credit card controls (cont.)

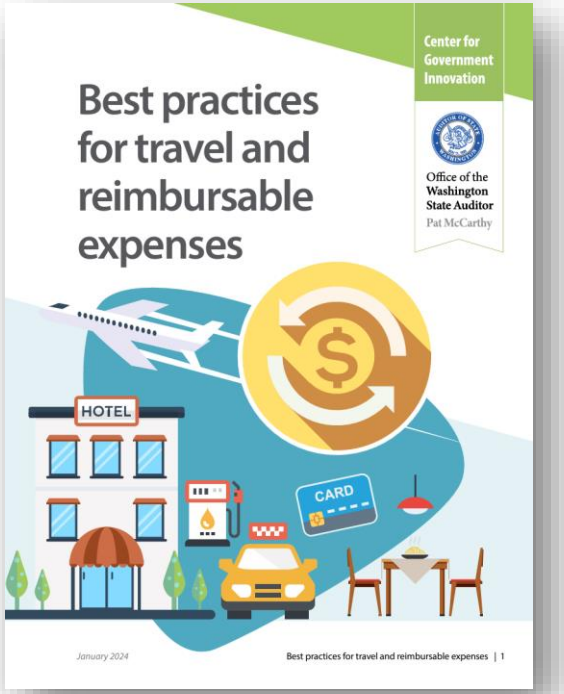
Enforce a good secondary review

- Creates accountability for cardholders
- Consider a reviewer/supervisor checklist
- Create standard forms for reviews
- Establish a workable deadline, ensure these are manageable by the employee based on schedule or other limitations

Disbursement resources







Small and attractive assets

Reminders and best practices

- Understand requirements: perform risk assessment, implement measures to track and control, consider cost/benefit in risk analysis
- Reminder: federal purchases must comply with 2 CFR 200.313.
- Set dollar thresholds by class, not one-size fits all
- Be consistent between departments
- Maintain central control over the asset listing, or at the least central oversight

Steps to an asset risk assessment

- Identify noncapital assets, by type
- For each type, identify risks by answering:
  - ➢Is this a new type?
  - ➢What does the public expect?
  - ➢Is this risky?
  - ➢Could this be used for personal use?
  - ➢Could this go missing easily?
  - ➢Is it dangerous?
  - ➢etc.
- For each risk, identify likelihood
- Develop proper safeguards
- Review risks again, and monitor for effectiveness

Assets: Take-home vehicles

Best practices to manage your fleet

Getting started:

- A robust policy starts with the basics: employee qualifications, expectations, process to assign and limit use

Assigning vehicles:

- Consider your eligibility criteria, confirm with actual data, and centralize the review/approval process

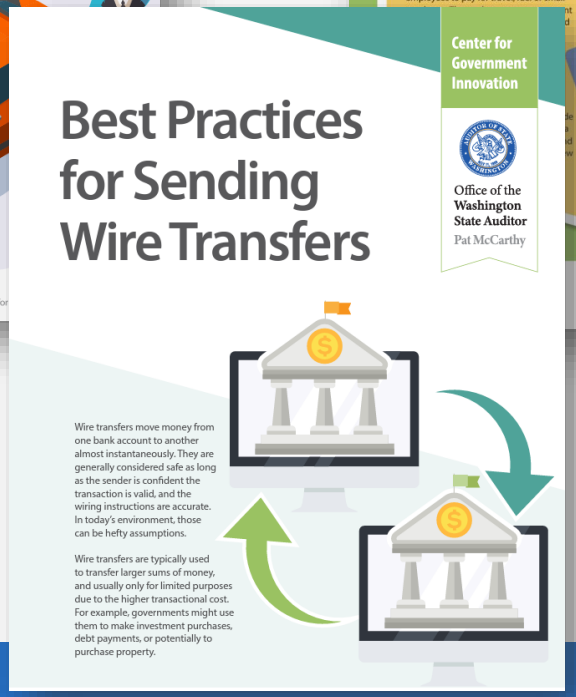
Assets: Take-home vehicles (cont.)

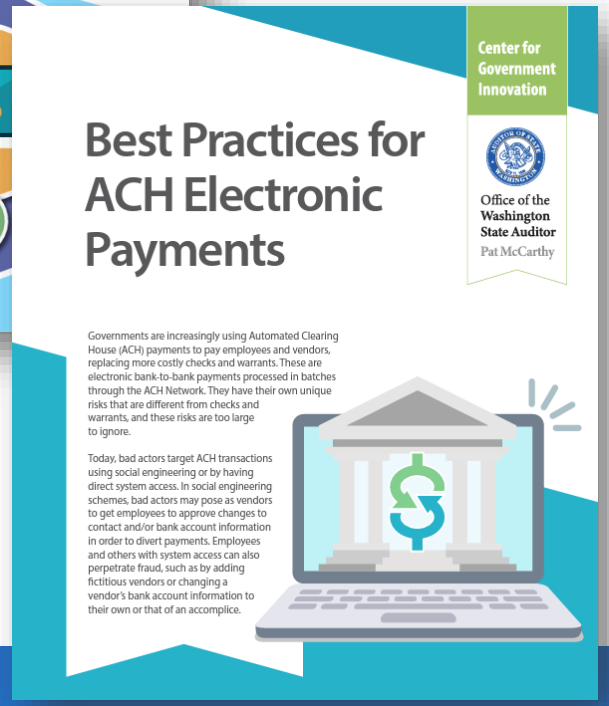
Best practices to manage your fleet

Set smart thresholds and use your data:

- Establish proper minimums, and impose mileage limits
- Review short-term authorizations
- Keep track of assignments and records
- Mileage logs will help inform decisions and reinforce policies

Scan to access the Resource Library





Questions?

Niles Kostick, Manager
Center for Government Innovation
Center@sao.wa.gov
(564) 999-0816

Office of the Washington State Auditor