

# INTERNAL CONTROLS

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# DEFINITION OF INTERNAL CONTROLS

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A process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over safeguarding of assets against unauthorized acquisition, use, or disposition may include controls relating to financial reporting and operations objectives.

# What does that mean?

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There are no guarantees

Operations

Laws and Regulations



# INTERNAL CONTROLS

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## Benefits Include:

- Reliable and timely information
- Consistent Systems
- Accurately Communicate

# Bank Reconciliations

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Check for errors

Open the bank statement

Sign on to the company's online bank  
account



# How to Identify Your Areas of Risk

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Balance Sheet Accounts

Consider consequences of misstatements

Decide on controls



# Internal Control Systems

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Promote consistency

Communicate

Create expectations of performance

Assist in training new personnel

A refresher or reference tool for other employees

# Cost Effective Challenges

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Obtaining sufficient resources to achieve adequate segregation of duties

Actions management can take include:

- Review reports
- Select transaction
- Take inventory
- Review/re-perform reconciliation



# Cost Effective Challenges

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Management override  
of controls



# Cost Effective Challenges

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Hiring people with proper expertise

Taking management attention from running the business

Maintaining appropriate control over computer information system



**Monitor and  
evaluate**

# EMBEZZLEMENT

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More than 2/3 of incidents committed by employees who held finance, bookkeeping, accounting positions

Most common embezzlement scheme:

- Forgery or unauthorized use of company checks
- Theft of cash receipts
- **Unauthorized electronic transfers**

# EMBEZZLEMENT IN MAINE

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Non Profits

Banks

Post Offices

Businesses

Towns

# Risks Involved with the use of IT

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Reliance on systems or programs that are incorrectly processing data, processing inaccurate data, or both.

Unauthorized access to data resulting in destruction or improper changes to data

Inappropriate access by IT personnel, thereby breaking down segregation of duties.

Unauthorized changes to data in master files.

# Risks Involved with the use of IT

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Unauthorized changes to systems or programs

Failure to make necessary changes to systems or programs

Inappropriate manual intervention

Loss or destruction of data or inability to access data as required.

# Controls Specific to IT

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Purchased Software Packages

Specialized, Custom Software



# E-COMMERCE-DEFINITION

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Buying and selling of goods and services over internet. Transactions without face to face interaction.

Includes: Electronic Funds Transfer, E-mail, Electronic Banking

# RISKS IN E-COMMERCE

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Unauthorized Electronic Transfers

Credit card theft – internally

Credit card theft - externally

# Small Merchants

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***You* must secure cardholder data to meet Payment Card Industry rules!**

Small merchants are prime targets for data thieves. It's *your* job to protect cardholder data at the point-of-sale.

If cardholder data is stolen – *and it's your fault* – you could incur fines, penalties, even termination of the right to accept payment cards!

Learn how the PCI Data Security Standard can protect cardholder data and prevent theft.

PCI ROCK  
"Payment Card Security"

# STEPS TO MANAGE RISK

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Payment Card Industry Data Security Standard – PCI-DSS

- [www.pcisecuritystandards.org](http://www.pcisecuritystandards.org)

# Protecting Cardholder Data Under your Control

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Compliance with the PCI standard includes protecting:

- Card readers
- Point of sale systems
- Store networks & wireless access routers
- Payment card data storage and transmission
- Payment card data stored in paper-based records

# CONCLUSION

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Up front investment of time and effort

Clear focus on goals

Consequences of ineffective controls

- Penalties and fines
- Lost business

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