

Internal Control Over Financial Reporting (ICFR) “Blocking and Tackling”

Association of Government
Accountants, KC Chapter

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Development Seminar

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Agenda



- ICFR Blocking & Tackling: Concepts
(Michael Fiene)
- ICFR Blocking & Tackling: Practice
(Barry J. Owens)

Concepts

Internal Control over Financial Reporting (ICFR)

Definition of



Transaction Integrity

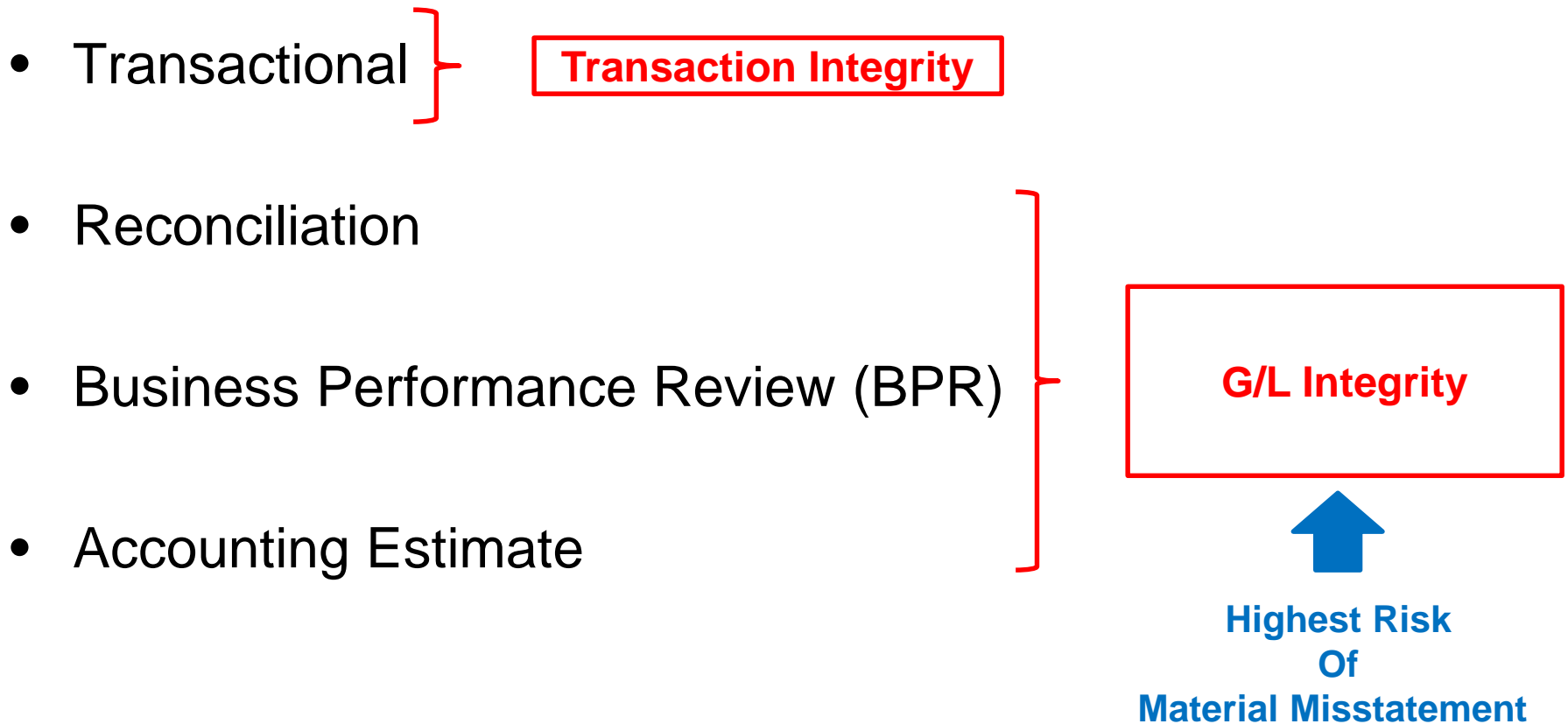
- Compliance with laws, regulations, contracts, and grant agreements - **transactions are executed** in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the basic financial statements.

G/L Integrity

- Reliability of financial reporting - **transactions are properly recorded, processed, and summarized** to permit the preparation of the Basic Financial Statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

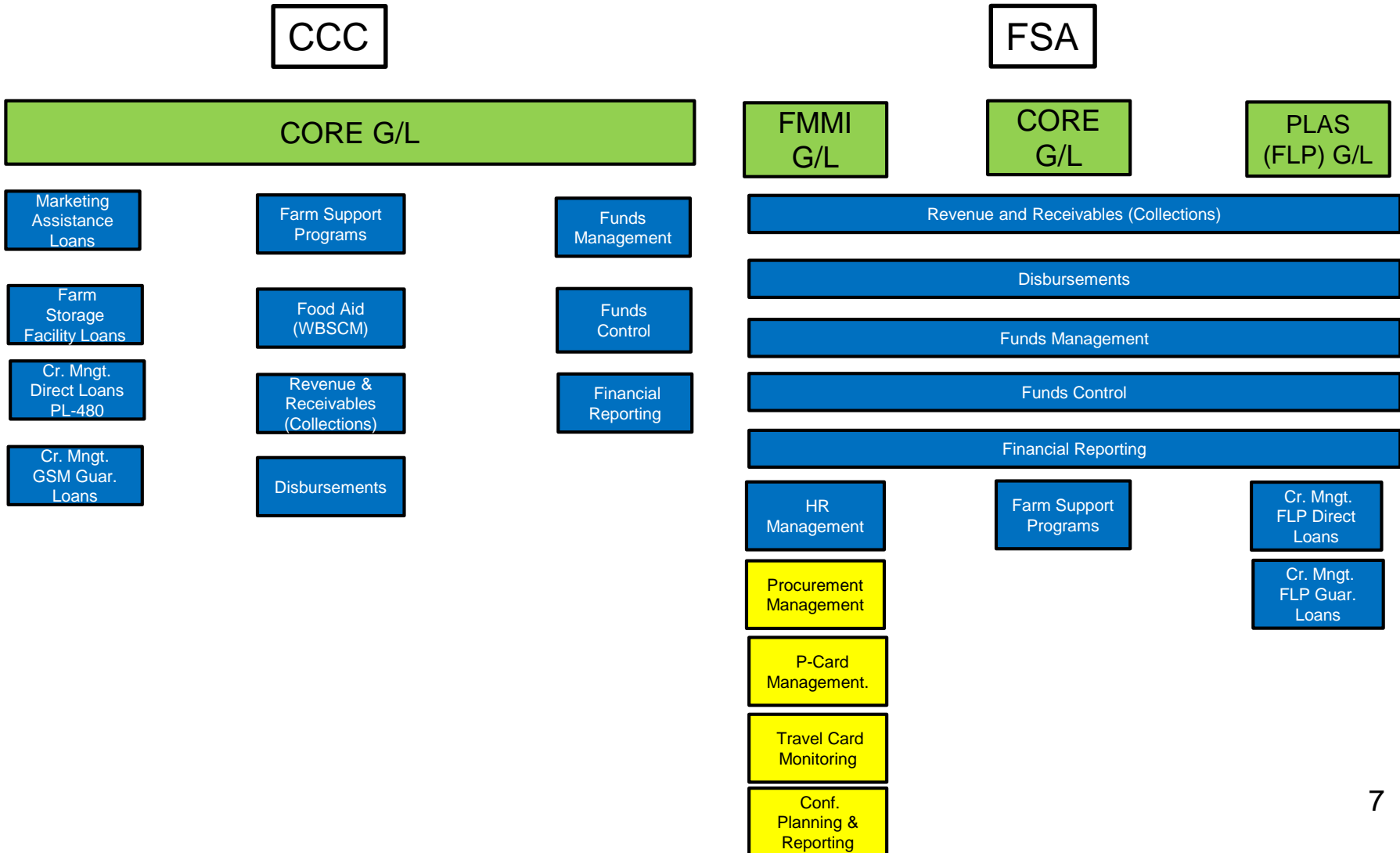
Source: OMB Bulletin 17-03, Audit Requirements for Federal Financial Statements, dated September 29, 2017

ICFR Internal Control Categories/Levels



Note: All internal controls are either “Manual” or “Automated”₆

Assessable Entities and Business Cycles



		Transaction Integrity		General Ledger Integrity		
		Transactional		Reconciliation	BPR	Accounting Estimate
		Manual	Auto	Manual	Manual	Manual
Cycle and Process		Manual	Auto	Manual	Manual	Manual
Entity-Wide Cycles	Disbursements					
	Disbursements (outside FMMI)		5	1	1	
	Master File Maintenance		1			
	Revenue and Receivables					
	Collections	2	1	3	1	
	Funds Management					
	Fund Balance with Treasury Reconciliation			2		
	Debt with Treasury			1		
	Funds Control					
	Budgetary Authority	1		1		
	Funds Control (Outside FMMI)		2	1	1	
	Financial Reporting					
Period End Reporting			5	5		
Significant Management Estimates (Includes Estimated Liabilities)					48	
Unliquidated Obligation Review				1		
GL Maintenance and Interfaces		2	3	1		
Program Specific Cycles	Credit Management-Marketing Assistance Loans					
	Credit Extension	3	4			
	Loan Monitoring and Payoff			2	1	
	Loan Receivables		1			1
	Credit Management-Farm Storage Facility Loans					
	Credit Extension	5				
	Loan Monitoring and Payoff			3	1	
	Loan Receivables		1			1
	Credit Management-PL480 Direct Loans					
	Loan Monitoring and Payoff	1		1		
	Loan Receivables		1		1	
	Credit Management-GSM Guaranteed Loans					
	Credit Extension	4	3		2	
	Loan Monitoring and Payoff			1		
	Loan Receivables	1			1	
	Loss Claims	4				
	Farm Support Programs (ARC/PLC, CRP, NAP, LFP, LIP)					
	Payments-Farm Support	2	5	1	1	
Food Aid (Food for Peace/USAID & Food for Progress)						
Awards-Food Aid	2	3				
Accounts Payable-Food Aid		3				
Closeout-Food AID				1		
Commodity Inventory			1	1		
	25	32	26	19	50	
			Grand Total		152	

ICFR Quiz



What internal control should the following organizations have in place and operating effectively?

- Sprint
- Cerner
- City of Kansas City, Missouri
- Johnson County, Kansas
- USDA-Farm Service Agency
- Ed's Hardware Store
- Barry's Hair and Nail Salon

Answer: Reconcile Cash

Examples of ICFR G/L Integrity Controls



- Reconciliations (Internal and External)
- Account Roll-Forward
- Aging and Monitoring (of Account Details)
- Predictive Analysis (i.e. Payroll)
- Relationship Analysis (i.e. Interest Income)
- Inspection/Count of Inventory
- Monitor Undeposited Collections
- Search for Goods Received, but not Invoiced
- Abnormal Account Balances
- Account Relationships
- Variance Analysis

Practice

(Including Examples from the Private Sector)

Tone at the Top - Critical

■ Control Environment

- Structure and Culture
- Commitment and Competence
- Accountability
- Integrity
- Collective Ownership

■ Impact

- Organization
- Impact on an Audit

■ Examples

- Trading Firm
- Advertising Agency
- Software Company



Fundamental Accounting Tools (1 of 2)

■ Reconciliations

- Accounting for Differences Between Source A and Source B

■ Roll Forwards

- Rolls Activity Forward - “BASE”

■ Analytics

- Variance Analysis
 - Budget
 - Period over Period
- Aging of Individual Transactions

■ Common Requirements

- Valid Populations
- Requires Valid Supporting Documentation
- Completed Prior to Accounting Period Close
- Collective Ownership



Fundamental Accounting Tools (2 of 2)



■ Roll Forward Example

Accounts Receivable			
B	Beginning Balance as of 10/01/17	TB	3,000,000
A	<u>Additions:</u>		
	October Invoices Issued	wp 1	1,000,000
S	<u>Subtractions:</u>		
	October Invoices Paid	wp 2	(2,500,000)
E	Ending Balance as of 10/31/17	TB	1,500,000

Tickmark Legend

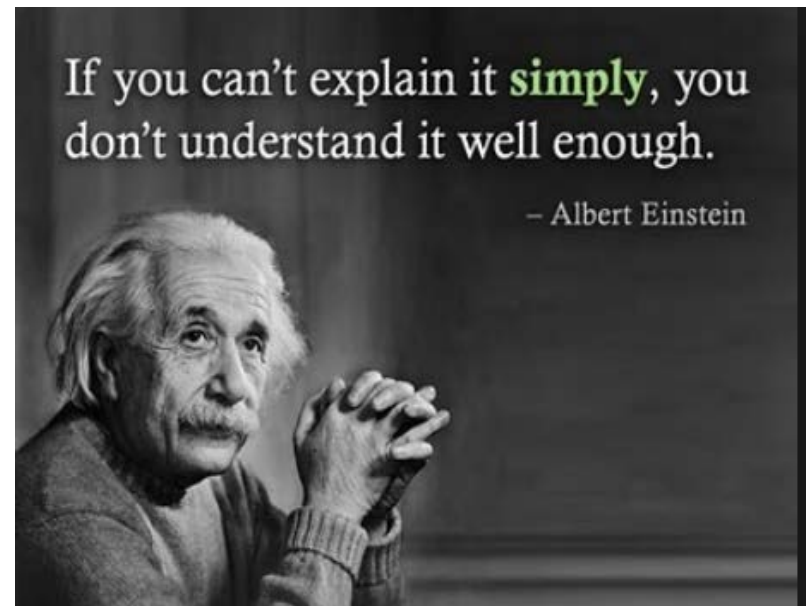
- TB** = Trial Balance
- wp 1** = Population of Individual Invoices Issued
- wp 2** = Population of Individual Invoices Paid

Supporting Documentation

- Perpetual Account Close Binders & Close Meetings
 - By GL Account or Financial Statement Line Item
 - Includes Reconciliations, Roll Forwards, Analytics, etc.
 - “Neat and Complete”, “Ticked and Tied”, and “Stand on its Own”
 - Close Meeting Presentations

- Supporting Documentation Impacts
 - My Approach
 - Consider your Time
 - Consider Auditor’s Time

- Examples
 - Local Utility
 - Advertising Agency
 - Software Company



Related Audits (1 of 3)

- Assessment of Internal Controls over Financial Reporting (ICFR) vs. Financial Audit

	<u>ICFR Assessment</u>	<u>Financial Audit</u>
Report:	Management's Assurance Statement	Independent Auditor's Report
Performed by:	Internal Audit	Independent Auditor
Objective:	To determine if internal controls are designed and operating effectively to prevent, detect and correct misstatements in the financial statements	To determine if financial statements are presented fairly, in all material respects
Audit Type:	Attribute (yes/no)	Substantive (account balances)

Related Audits (2 of 3)

■ Possible Misunderstanding

- For the Federal Government, an ICFR Opinion is not included in an Independent Auditor's Report
- A Clean Financial Audit does not address if internal controls are designed and operating effectively to prevent, detect and correct misstatements in the financial statements

■ Beneficial Relationship – Organization

- Controls which are designed and operating effectively can be leveraged by the Independent Auditor, to reduce required substantive testing.
 - Helps Increase Knowledge and Understanding of Independent Auditor
 - Helps Decrease Professional Skepticism of Independent Auditor
 - Helps Decrease Financial Audit Duration
 - Helps Decrease the Cost of Financial Audit

Related Audits (3 of 3)

■ Beneficial Relationship – Employee

- When controls are effectively designed and operating to prevent, detect and correct misstatements in the financial statements
 - Repeatable and Sustainable Processes are Performed Throughout the Year
 - Heroic Year-End Efforts can be Significantly Reduced
 - Peace of Mind – Knowing that You’ve Properly Accounted for Governmental Programs
 - Peace of Mind – Knowing that You’ve Provided for an Efficient and Less Costly Audit (i.e. taxpayer dollars)

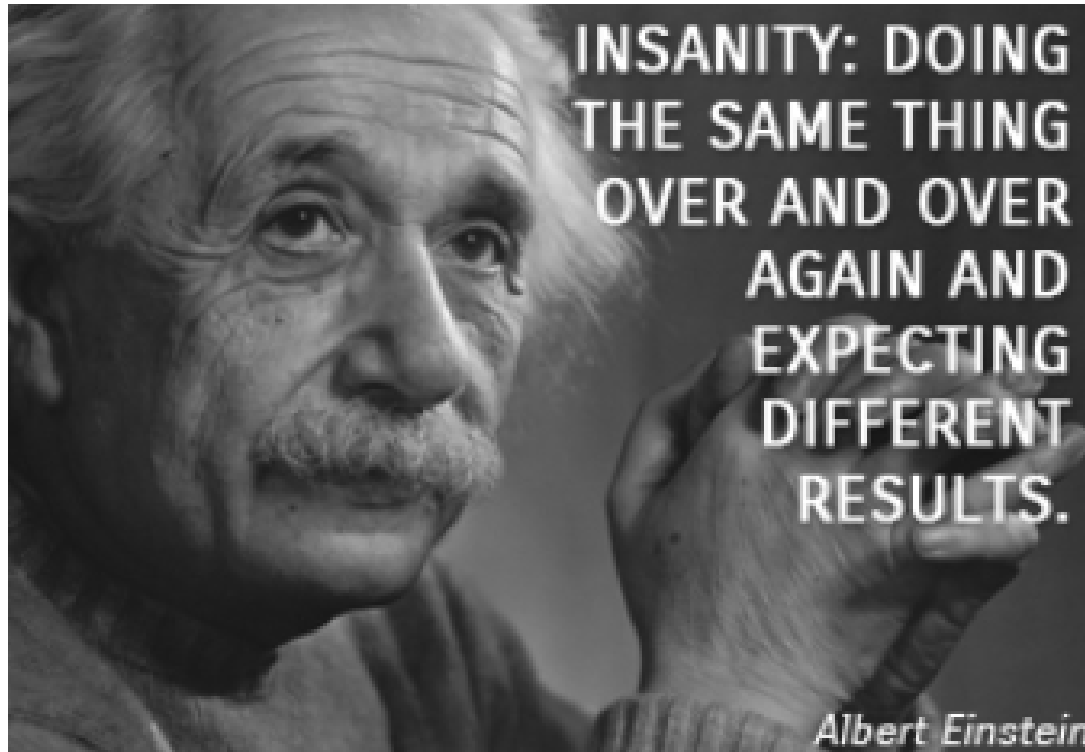
WORK SMARTER

NOT HARDER

■ Requirements to Achieve

- Effective Tone at the Top
- Effective Use of Fundamental Accounting Tools (repeatable/sustainable)
- Proper Supporting Documentation (repeatable/sustainable)
- Understanding Audits and Their Related Benefits

Words of Wisdom



ICFR Blocking and Tackling



Questions?