Internal Controls in the Remote Working Environment
Insights from the CPA and Banking Perspectives

PRESENTED BY

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Agenda and Objectives

Fraud and Our New Reality

The Control Environment

Fraud Risks and Internal Controls
- Disbursements
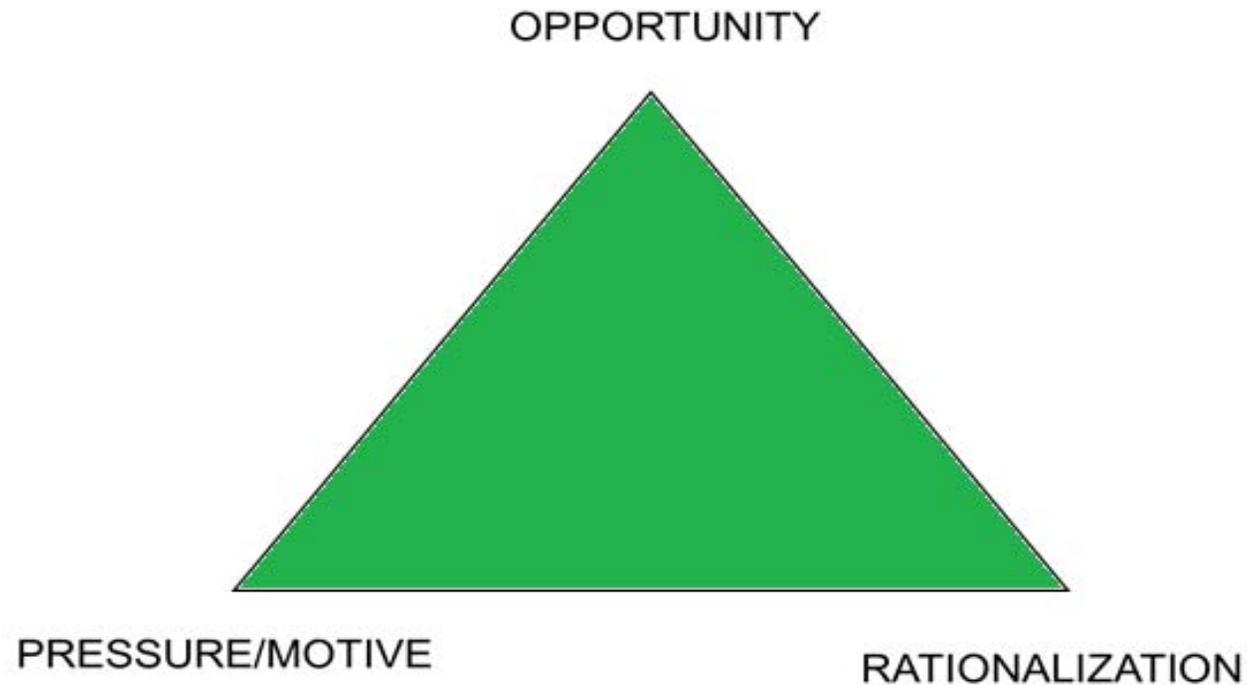- Cash receipts

IT Considerations

Fraud and Our New Reality

IT'S A NEW WORLD, WITH NEW RISKS

Fraud and Our New Reality

Fraud Triangle

Fraud and Our New Reality

Operations in flux

- o Decreased revenue and funding

- o Budgetary constraints

- o Employees in new/different roles "filling gaps"

- o Increased focus on operations rather than compliance with procedures and internal controls

- o Uncertainty

Fraud and Our New Reality

Workers in transition
- Changes in economic pressures
- Reduced frequency of contact with remote employees
- Changes in availability and working hours
- Changes in job roles and responsibilities

Fraud and Our New Reality

Supply chain risk and disruption
- o Reduced capacity from existing vendors
- o New vendors may not be fully screened in order to fill gaps in production
- o Unfamiliarity with vendors
- o Disruptions cause urgency

The Control Environment

The Control Environment

Commitment to integrity and ethical values

Governing board oversight

Clear management structure and reporting lines

Development and training of staff

System of accountability

The Control Environment

Written fraud policy

- What actions constitute fraud
- How and to whom to report suspected fraud
- How fraud will be prosecuted
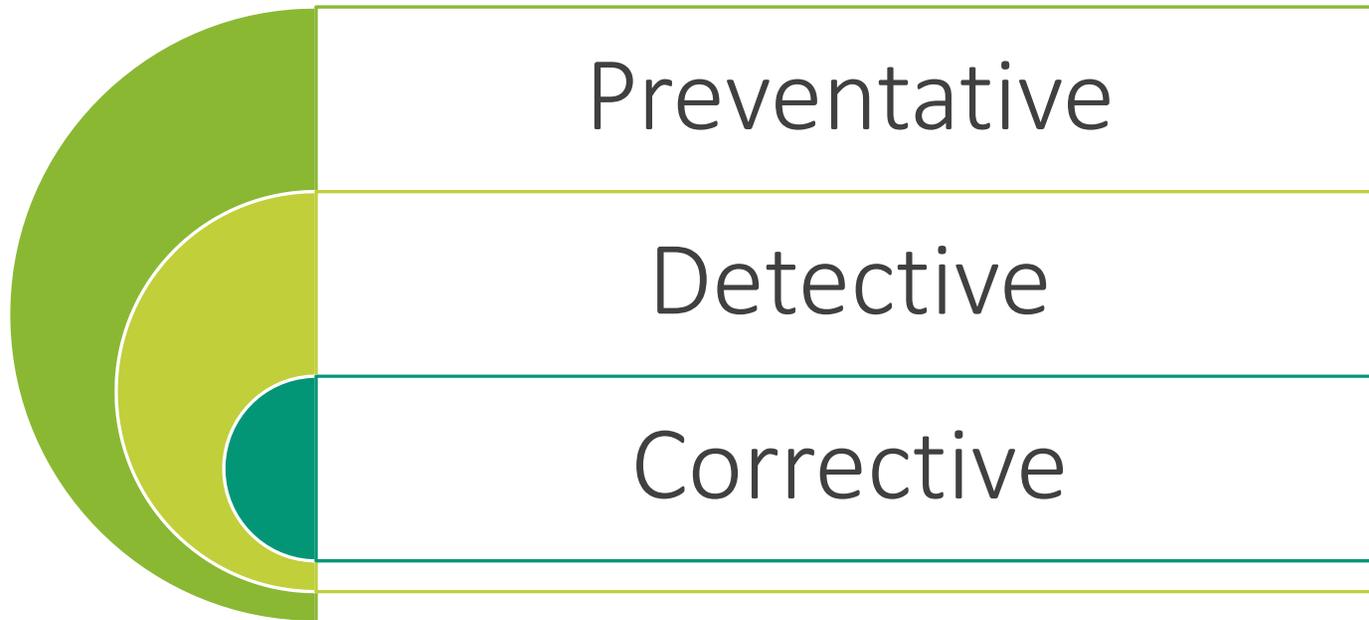
Written accounting process and procedures manual

- Includes significant internal controls for major transaction cycles
- Who can do what

The Control Environment

Written accounting process and procedures manual
◦ Should include combination of the three types of controls

Preventative

Detective

Corrective

The Control Environment

Segregation of duties
  ◦ Separate duties among different people

Record keeping

Authorization

Asset custody and reconciliation

Disbursements

FRAUD RISKS AND INTERNAL CONTROLS

Disbursements – Fraud Risks

Check fraud
- Theft of check stock
- Fraudulent signatures
- Altering payee information

ACH and Wire fraud

Debit card fraud

Credit card fraud

Vendor fraud schemes
- Fake vendors
- Kick backs

Improper use of restricted funds

Expense reimbursement schemes

Register disbursement schemes

Payroll schemes
- Ghost employee
- Timesheet fraud
- Unemployment fraud

Disbursements – Internal Controls

Segregation of duties
- What is current process and where is there a lack of segregation of duties?
- How has process changed with COVID?
- Reprioritize risks – what are the key fraud areas?

Check signer due diligence
- Examine all supporting documentation
  - Don't sign check if no support
- Agree supporting documentation to check
  - Payee information, amount, invoice number
- Check signer must control the mailing of the check

Disbursements – Internal Controls

Online and mobile banking
- o Access rights and roles
- o Online bill pay
- o Online statements and account dashboard
- o Online balance alerts

Positive Pay, ACH and check monitoring

Debit cards and credit cards

Disbursements – Internal Controls

Controls for vendor fraud schemes
- Restrictions on adding new vendors
- Regular review of vendor master file
- Check signer controls

Disbursements – Internal Controls

Controls for payroll fraud schemes

- o Restrictions to access to adding new employees
- o Comparison of payroll records to HR records
- o Require signed policy for remote working
- o Review and approval of timesheets
- o Check ins with employees through the day, random calls
- o Logs of computer activity for remote employees
- o ACH Origination / Direct deposit options
- o Positive Pay

Disbursements – Internal Controls

Controls for expense reimbursement schemes
- Written policies
- Required receipts/backup for all reimbursements
- Timely and thorough review
- Disbursement methods

Cash Receipts

FRAUD RISKS AND INTERNAL CONTROLS

Cash Receipts – Fraud Risks

Sales schemes
- Unrecorded sales
- Understated sales
- False discounts

Skimming
- Taking cash off the top
  - Receivable write-offs
  - Fictitious receivables

Improper revenue recognition
- Missing revenues
- Mishandling of donor restrictions
- Recorded in wrong period

Stolen donations

Remote deposit capture/ check scanners

Mobile deposit fraud

Cash Receipts – Internal Controls

Segregation of duties
- What is current process and where is there a lack of segregation of cash handling duties?
  - Who is opening the mail?
  - Are you operating with dual custody?
- How has process changed with COVID?
- Reprioritize risks – what are the key fraud areas?

Cash Receipts – Internal Controls

Banking controls
- Types of payments you accept
  - Endorsement of checks

- Online and mobile banking tools
  - Remote deposit
  - Online statements
    - Access to and storage of statements

Cash Receipts – Internal Controls

Banking controls

- Regular and timely reconciliation of bank accounts
  - Ideally reconciliation completed by someone who is independent of cash collection and recording
  - Review of reconciliation by additional person
    - Member of management, Finance Committee or Board

Cash Receipts – Internal Controls

Controls against billing and skimming schemes
- Segregation of duties
- Management oversight and review
- Review of receivables and related activity
  - Receivable aging and overdue receivables
  - Write offs
  - Credit memos

IT Considerations

FRAUD RISKS AND INTERNAL CONTROLS

IT Considerations

Information security / data theft
- o Remote access considerations
- o Possible use of unsecured networks
- o Possible use of personal devices, email
- o Storage of documents and information

Virtual meeting security
- o "Zoombombing"

Pre-COVID threats
- o Malware
- o Phishing/vishing
- o Data breach/heists

IT Considerations

Reply   Reply All   Forward

Fri 4/5/2019 9:31 AM

IT Adminstrator <kimjarrell@charter.net>

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Hi kyoung@jrcpa.com,

To avoid disruption of your email service, please confirm *kyoung@jrcpa.com* below.

Confirm now

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Thanks

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