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Southeast Missouri Regional Planning Commission
Guide to Internal Controls and Risk Management

The Board of Directors and the administration of the Southeast Missouri Regional Planning Commission place significant importance on the establishment, effectiveness and monitoring of internal control to safeguard the assets of the Commission. Southeast Missouri Regional Planning Commission has created this Guide to Internal Controls and Risk Management to document and enforce internal control policies and procedures.

INTERNAL CONTROL

The Southeast Missouri Regional Planning Commission has aligned this internal control document with the 1994 report issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and standards adopted by the American Institute of Certified Public Accountants and the Federal Office of Management and Budget. COSO is the recognized standard for establishing internal controls and defines internal control as "a process, effected by an entity's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and objectives"

The first objective deals with the entity's achievement of basic business objectives. The second refers to the reliability of financial information (both internal and external) that is used by decision makers. The third deals with complying with laws, regulations and policies.

Thus, internal control is a management process to assist the Commission in achieving the educational objectives adopted by the board. This management control system should include procedures and policies to help ensure resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statements and other reports; and resource use is consistent with laws, regulations, and policies. Internal control can be judged as effective in each of these categories if the Board of Directors and administration have reasonable assurance that:

- They understand the extent to which the entity's operations objectives are being achieved.
- Published financial statements are being prepared reliably
- Compliance with applicable laws and regulations is being achieved.

Reasonable assurance equates to a satisfactory level of confidence given the considerations of costs, benefits and risks.

Based on the Statement of Auditing Standards (SAS) 112, the Commission has reviewed and documented its basic internal controls and continuously assesses fraud and risk. This process included reviewing, documenting and compiling the policies, regulations and procedures that set the internal control environment for the Commission. Also included in the documentation is the Board of Directors' commitment to the Commission's internal controls by setting the tone from the top of the organization. This assessment was conducted in part to evaluate current practices in place as well as to initiate and ensure continuation of the Commission's commitment to internal control. A comprehensive review must be conducted on an ongoing basis since the potential risk for fraud is ongoing as well.

Commission management should identify and analyze the risks in achieving educational objectives and determine how to most effectively and efficiently manage those risks. Management defines the level of risk and strives to control risks within those levels.

The Southeast Missouri Regional Planning Commission has adopted methods to assess risk and review control activities. A risk assessment is a process to identify, analyze, and manage risk. The Commission identifies both external and internal risks to help management understand how those risks affect their activities, assess their significance, manage their effect and provide for continuous monitoring. Risk identification can often be integrated with the Commission's planning activities.

Risk analysis involves a careful, rational process of estimating the significance of a risk, assessing the likelihood of its occurrence, and considering what actions and controls need to be taken to manage it. Risk analysis also involves estimating the cost to the Commission if something does go wrong.

COMPONENTS OF INTERNAL CONTROL

The COSO framework outlines five essential components of an effective internal control system:

1. **Control Environment**. The control environment sets the tone of the Commission as it defines management's leadership and commitment towards openness, honesty, integrity and ethical behavior. It is the foundation for all other components of internal control. Control environment factors include the meaning of integrity, ethical values, and the competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility and organizes and develops its people; and the attention and direction provided by the Board of Directors. The control environment reflects the overall attitude, awareness, and actions of the Board of Directors, administration, management and others concerning the importance of control and the way it is used in the entity.

2. **Risk Assessment**. This is the identification and analysis of obstacles to achieving the objectives and forms a basis for determining how risks should be managed. This component should address the risks, both internal and external, that must be assessed. Before conducting a risk assessment, objectives must be set and linked at different levels.

3. **Control Activities**. Control activities are the internal policies and procedures that help ensure that management directives are carried out. They help ensure necessary actions are taken to address risks to achieving the Commission's objectives. These include a range of activities such as approvals, authorizations, verifications, reconciliations, review of operating performance, security of assets, and segregation of duties.

4. **Information and Communication**. Pertinent information must be identified, captured and communicated in a form and time frame that enables individuals to carry out their duties. Information systems produce reports containing operational, financial and compliance related information, making it possible to efficiently manage the Commission.

5. **Monitoring**. Management systems and internal activities need to be monitored to assess the quality of their performance over time. Assessment is accomplished through ongoing monitoring activities, separate evaluations, or both. Deficiencies should be reported to supervisory staff, with serious matters reported to top management.

These five components are linked together, thus forming an integrated system that can react dynamically to changing conditions. The internal control system is intertwined with the organization's operating activities and is most effective when controls are built into the organization's infrastructure, becoming part of the very essence of the organization.

LIMITATIONS OF INTERNAL CONTROL

Internal control is not an absolute assurance to management and the board about the organization's achievement of its objectives. It can only provide reasonable assurance, due to limitations inherent in all internal control systems. For example, breakdowns in the internal control structure can occur due to simple error or mistake, as well as faulty judgments that could be made at any level of management. In addition, controls can be circumvented by collusion or by management override. Finally, the design of the internal control system is a function of the resources available, meaning that there must be a cost-benefit analysis in the design of the system.

INTERNAL CONTROL STRUCTURE

Internal Controls are not just a means of preventing employee fraud. The internal control structure within an organization consists of policies and procedures established to provide reasonable assurance that the organization's objectives will be achieved.

The internal control structure shall be designed to ensure that the assets of the Commission are protected from loss, theft or misuse and provide reasonable assurance that these objectives are met.

- Internal control is a process. It is a means to an end, not an end in itself.

- Internal control is affected by people. It's not merely policy manuals and forms, but people at every level of an organization.
- Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an entity's management and board.
- Internal control is geared to the achievement of objectives in one or more separate, but overlapping, categories.

Internal control comprises the Commission's environment, staff, plan, policies, systems and procedures, and must be:

- Established, executed, and monitored by the Board, administration, and other personnel
- Designed to foster achievement of the Commission's objectives
- Compliant with applicable laws and ethical standards
- Developed in a prudent manner with balanced cost-benefit considerations.

Internal **administrative** controls provide for operational efficiency and for adherence to prescribed policies in all departments of the organization. Internal **accounting** controls are those bearing directly upon the dependability of the accounting records and the financial statements and should be established and designed to achieve the following objectives:

- **Validation/Existence:**

  Validation is the examination of documentation, by someone with an understanding of the accounting system, for evidence that a recorded transaction actually took place and that it occurred in accordance with the prescribed procedures. Transactions should be tested by an informed individual and determination made as to their validity (e.g., appropriate approvals have been obtained and/or comparisons have been made to the underlying documentation.)

- **Accuracy/Valuation:**

  Accuracy is achieved when controls are in place to check calculations and account classifications, in order ensure that each transaction is reviewed for mathematical calculations, proper coding, and timeliness.

  Reconciliations between subsidiary records and control accounts should be performed monthly to ensure that postings are correct and adjustments have been properly processed.

- **Completeness:**

  Completeness controls are needed to ensure proper summarization of information and proper preparations of financial reports. Completeness is achieved when all transactions that should be presented in the financial statements are included.

- **Segregation of Duties:**

  Internal controls are dependent upon the proper segregation of duties between authorization of transactions, record keeping for transactions and custody of assets. This fundamental concept is that no one department or person should handle all aspects of a transaction from beginning to end.

- **Physical Security:**
  All assets and the accounting records should be properly safeguarded to prevent theft or other loss. Physical security of assets requires that access to both assets and related accounting records is through the use of physical controls. Protection devices restrict unauthorized personnel from obtaining direct access to assets or indirect access through accounting records which could be used to misappropriate assets.

CONTROL ENVIRONMENT

The Commission's Board of Directors is committed to maintaining a system of internal controls. The Board of Directors has adopted Commission policies which govern assets, processes and the operations of the Commission. In addition, the Board has established additional policies which provide direction to the Commission as well as set a tone for good business practices, established procedures, ethical activity and prevention of fraud. Likewise, Commission management is committed to internal control and also is responsible for the foundation of internal control and establishing a culture of internal control with employees. The Commission plans, organizes and directs all processes in a manner that ensures the goals and objectives of internal control are met. All systems, processes, operations, functions and activities must be managed to support an internal control policy. The Executive Director and Fiscal Officer are responsible for establishing and maintaining an internal control structure that will be reviewed annually with the Commission's independent auditor.

As stated, the control environment starts with the Board of Directors and, from there, flows through all levels of the Commission. A brief review of this structure is given below.

Board of Directors. The Board has established internal control by setting and overseeing Board policy. The three major areas of control, which are operations, compliance with laws and regulations, and financial reporting are governed by Board policy. The Board expresses its commitment to internal control as well as its expectations that all employees will follow the system of internal control.

Executive Director. The Executive Director has the ultimate responsibility of the internal control system since this position is viewed as the person responsible for the daily operations of the Commission. The Executive Director conveys to all employees the tone/culture that affects the integrity, ethics and other factors that create the positive control environment needed for the internal control system to thrive. However, after setting the tone for the Commission, much of the day-to-day operation of the fiscal control system is delegated to the Fiscal Officer, under the leadership of the Executive Director.

Fiscal Officer. Much of the basics of the control system come under the domain of this position. It is key that the Fiscal Officer understand the need for the internal control system, is committed to the system, and communicates the importance of the system to all people in the accounting department and in the Commission. Further, the Fiscal Officer must demonstrate respect for the system through his or her actions.

All other personnel. The internal control system is only as effective as the employees throughout the Commission that must comply with it. Employees throughout the organization should understand their role in internal control and the importance of supporting the system through their own actions and encouraging respect of the system by their colleagues throughout the Commission.

Furthermore, the Board selects an audit firm that is asked to report alleged financial misconduct, review Board-adopted policies on ethics and conflict of interest, monitor the adherence of Board policies, and review administrative procedures related to financial transactions.

Employees are made aware, through Board policy and staff meetings, of the expectations and requirements regarding ethical behavior, as well as potential consequences of misbehavior.

The Commission is committed to competence and excellence as illustrated through the formal job descriptions, the interview and hiring process, performance of background checks on prospective employees, and the professional development and training opportunities available to all employees.

The Board takes an active role in oversight of the Commission. Board members are active on committees, review monthly financial reports, are apprised of various situations within the Commission in open meetings and in closed session meetings when warranted, and makes final decisions on all contracts/agreements/compensation and overall operations of the Commission. Additionally, the Board reviews policy and reviews the departments and programs of the Commission.

The Commission's philosophy and operating style tends to be of a conservative nature As a result, decisions are examined and evaluated to ensure that they are in the best interest of the Commission. The Commission has also been able to retain competent personnel within its management which has allowed for the consistency of implementing Commission approved purchasing and accounting procedures. The Commission also implements an attitude of collaboration while engaging the Board, staff, and the community. To help ensure the timeliness of information, open public meetings are held monthly for Board action items. Staff meetings are held monthly.

RISK ASSESSMENT

The Commission does try to anticipate, identify, analyze and manage events or activities that affect achievement of entity-level or activity-level objectives, either internal or external. Historically, the Commission has informally assessed risk through Board policy, established practices and processes, as well as through administrative meetings. Additionally, the Commission maintains considerable involvement in local and state and national professional organizations. The Commission relies on external sources to help identify and react to changes such as in state or federal legislation or regulations, economic concerns which might affect budgeting, cash flow, or investing surplus capital. The Commission will continue this practice.

The Commission has done an overall satisfactory job of assessing risk. Commission personnel have the skill, knowledge and competence to manage their respective area and be involved with various organizations. Therefore, personnel are made aware of any internal or external risks and/or changes in economy, legislation, demographics, standards, etc. and are able to address those risks in relation to the Commission's overall objectives.

The Commission has established a written, formal process for identifying, analyzing and addressing risk for the 2008 fiscal year as given below. The Executive Director and the Fiscal Officer review fiscal risk analysis and involve administration, accounting personnel and other employees. This process may include interviews, observation and/or original document review. This process occurs annually at the beginning of the fiscal year and involves communication with various departments within the Commission.

The first step in the risk analysis process is to group naturally interrelated activities into control cycles. These control cycles are identified below. The Executive Director and Fiscal Officer then prioritize the examination of controls by department, activity or control cycle based upon the perceived degree of vulnerability by considering the risk's impact and likelihood of occurrence. The Executive Director and the Fiscal Officer will then test the controls by documenting how transactions and events are selected for evaluation. The documentation includes who is responsible for doing what task. Potential risks are then identified, along with related control policies and procedures designed to compensate for those potential risks. The design of each compensating control is evaluated to determine whether the control is effective and operating as designed, and tested to see if it has actually been implemented. If controls are not working properly, then appropriate action is taken to ensure compliance. The cost/benefit of the controls is also taken into consideration.

FINANCIAL CYCLES

CONTROL ACTIVITIES: See supporting documentation.

INFORMATION AND COMMUNICATION: See supporting documentation.

CASH RECEIPTS:

The risk of theft and fraud is potentially the greatest with cash, and a strict adherence to Commission policies and practices is critical to ensure the safety of those assets. The following will assess specific areas within the Commission that are responsible for cash.

Cash:

Cash is received for concessions sold to employees and for walk-in purchase of copies or maps.

Per Commission procedure, all monies collected within the Commission shall be handled in a proper fiscal manner and prudently safeguarded. Money collected for any purpose shall be submitted to designee, who will provide for its proper deposit.

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Risk: Cash receipts lost or stolen. There is always a high risk of theft when handling cash and strong controls are essential to safeguard cash receipts. These controls help ensure that cash is brought under control immediately upon receipt and that procedures are in place at each step in the process to ensure the cash is properly secured and accounted for.

Key Controls:

- Cash log/resister totals/manual receipts reconciled to deposits.
- Timely deposits with supervisory review.
- Restrictive endorsement applied to checks immediately upon receipt.
- Manual receipt forms physically secure at all times.

Risk: Cash receipts recorded incorrectly in the accounting system. It is important to maintain the integrity of the accounting system involved in recording cash receipts. Poor accounting controls provide the opportunity for someone to misappropriate cash receipts without the risk of detection.

Key Controls:

- Detailed records kept of individual receipts (cash log).
- Period ending cutoff procedures ensures recognition in correct period.
- Procedures exist to ensure that all deposited receipts are recognized in the accounting system.
- Reconciliation between federal cash draws system information and state accounting system information.
- Management compares budgeted receipts to actual receipts at least monthly.

Action Item:

- Back-up put in place when the Fiscal Officer is unavailable to check electronic receipts and report those receipts to appropriate staff.

Risk: Reconciliation insufficient to detect and deter lost or stolen receipts and to ensure receipts are properly recorded. Accurate and timely cash reconciliations are a critical control because they provide an opportunity to compare the accounting records with a reliable and independent source.

Key Controls:

- Daily reconciliation performed and reviewed in a timely manner.
- Standardized reconciliation procedures exist and are communicated to the appropriate staff.
- Reconciliation documentation is reviewed by supervisor or other staff independent of the cash receipts functions.
- Reconciliation documentation is retained for appropriate time period.
- Variances are pursued and results acted upon in a rigorous and timely manner.
- Reconciliation performed by non-custodial staff.

Risk: Segregation of duties insufficient to prevent and detect lost or stolen receipts and to ensure receipts are properly recorded. If only one person is involved in the cash receipts cycle, it is easy to manipulate the process to allow cash thefts to go undetected. Segregation of duties helps ensure that one person does not have complete control of the physical cash and its accounting.

Key Controls:

- In relation to cash receipts, the following functions are performed by separate individuals and, ideally, under separate supervision:
  - ➢ Physical custody of cash.
  - ➢ Accounting/recording of cash receipts.
  - ➢ Reconciliation of accounting records to bank information and cash log (and subsidiary system if applicable).

REVENUE / RECEIVABLES:

The majority of revenue to the Commission is received from government sources. These revenues are able to be reconciled to reports generated by these government agencies.

Bank reconciliations are prepared monthly by the Fiscal Officer and reviewed by the Executive Director.

- Each month the Commission's bank statements are reviewed by the Fiscal Officer. This includes a current listing of outstanding checks which is interfaced with the Commission's accounting software to ensure that the necessary checks are marked cleared.
- State and federal revenues are received via ACH with a payment transmittal that is available from the bank's website.
- The Fiscal Officer will prepare all necessary journal entries to ensure that these revenues are recorded in the General Ledger.
- State and federal revenues are all able to be reconciled to an annual report or quarterly report.

Risk: Invoice errors (incorrect charges) result in excess/loss of revenue and inaccurate accounting. These controls will help ensure that invoices are prepared accurately which will result in revenue being collected and reported properly.

Key Controls:

- Invoices are prepared by the Fiscal Officer and a copy is given to the Executive Assistant.
- Invoices prepared by the Fiscal Officer are reviewed by the Executive Director or the program director for the project being billed.
- Revenue received from invoices is reviewed for accuracy and compliance to the invoice.
- Aging receivables are reviewed by all management staff.

Risk: Improper revenue receivables accounting policies and practices result in misstatement of account balances. These controls will help ensure that there is adequate accountability and that accounts receivable and related accounts are reported properly.

Key Controls:

- Source documents supporting accounts receivables postings are retained.
- Policies and procedures ensure accurate posting of revenue and receivables at period end (period end cut off).
- Accuracy of invoices is ensured prior to communicating billing to customer.
- Ability to perform account adjustments, refunds, write-offs, and allowance for bad debt is limited and separate from other receivables functions.
- Authorization/approval procedures are adequate to ensure accuracy and legitimacy of adjustments.
- Access to the accounts receivable activity is limited to authorized personnel.
- Subsidiary accounts receivable ledger is periodically reconciled to the control account monthly.
- Majority of Commission revenues are reconciled to independent payment reports.

Risk: Policies and procedures insufficient to collect amounts due in a timely manner.

Key Controls:

- Written collection and credit policies exist that address:
  - ➢ limiting services to delinquent accounts.
  - ➢ collection activity on delinquent accounts.
  - ➢ legal remedies pursued.

Risk: Inadequate segregation of duties. These controls will help deter and detect inappropriate account activity including simple mistakes and overt fraud.

Key Controls:

- Separate personnel are handling the billing, collection, account adjustment duties.
- Supervisor reviews activities associated with the billing, collection, and account adjustment duties.
- The following duties generally performed by different people:
  - ➢ Billing, collecting, and cash application of accounts receivable funds.
  - ➢ Maintaining detail accounts receivable records, collecting, and general ledger posting.
  - ➢ Writing off or adjusting to accounts receivable and the maintenance of accounts receivable records.
  - ➢ Investigating disputes with billing amounts and the maintenance of accounts receivable records.
  - ➢ Reconciling, investigating reconciling items and posting detail accounts receivable records.
- Segregation of duties is more fully detailed in the attached document "Internal Control Procedures."

Future Recommendations:
- Continue to segregate duties when possible with limited staff.

EXPENDITURE / FISCAL OFFICER:

Per Commission policy, the annual budget governs the expenditures and obligation of all funds for the Commission. No funds may be spent that are not authorized by the annual budget. If an unanticipated need arises, then either an appropriate amount sufficient to cover the needed expenditure is transferred from unencumbered funds or the budget is revised. Per Commission policy, the Fiscal Officer will prepare monthly financial expenditure reports that are presented to the Board of Directors for review. Per Commission policy, the Fiscal Officer prepares the monthly financial reports that are presented to the Board of Directors for review and approval.

Payments for materials or services which are necessary for normal business operations may be authorized by the Executive Director/designee. In addition, if cash discount or avoidance of financial penalty can be achieved, the Executive Director/designee is authorized to issue a check. In addition, Commission policies and procedures address the areas of responsibility pertaining to purchasing, purchasing guidelines, purchasing authority, state statutes, and bids to be accepted.

Purchasing Process:

Each employee submits their requests to the Executive Director or Fiscal Officer. All goods received at the building are noted as received in partial or full. A receiving copy of the purchase order is sent to the Fiscal Officer. All invoices are received at the Commission's office and any discrepancies are investigated by the Fiscal Officer and/or the originating department. The Fiscal Officer enters invoices into the accounting system and matches checks to invoices. The Fiscal Officer then reviews all payment information including account codes, budget available, vendor information and proper documentation. If satisfied, then the Fiscal Officer approves invoices for payment. The Fiscal Officer will then write checks to cover all approved invoices. The Executive Director and the Executive Assistant, or other authorized signatories, then review all invoices prior to signing checks. If all is in order, checks are signed by two authorized signatories and disbursed.

In addition, per the travel guidelines, all travel and reimbursement expenditures are documented including meals, lodging, registration, etc.

Risk: Commission resources lost or stolen through unauthorized/improper expenditures. Adequate controls over the expenditure process are essential in preventing and detecting fraud and other improprieties involving Commission resources.

Key Controls:
- Policies and procedures adequate to accurately determine payee eligibility.
- Payables reviewed and approved prior to payment for the following:
  - Payment within budgetary parameters.
  - Goods/services/benefits allowable and authorized per the appropriation.
  - Expenditure is necessary and reasonable.

- Vendor is legitimate and accurately reflected on the invoice.
  - Payment amount is supported–quantities, unit prices, extensions and totals are correct.
  - Voucher material includes an original invoice as required.
  - Agreement with contract terms.
  - Acknowledgement of receipt of goods or services.
- Procedures applied consistently to prevent duplicate payments.
- Controls over vendor file include:
  - Limited access to vendor file and restricted ability to alter the file.
  - Approval process for new vendors and vendor record changes.
  - Periodic identification of inactive vendors to ensure these are made inactive in the system.
- In cases where original invoices are not used, other policies and procedures to ensure legitimacy of all components of the payment.

Future Recommendations:
- Review approval process of new vendors.

Risk: The Commission does not receive the best possible service, quality of goods, price, contract terms and/or protection from liability. The Commission is not in compliance with laws and regulations.

Key Controls:
- Policies and procedures ensure legality of purchasing procedures.
- Procurement process is fully explained in attached "Policy Statement Concerning Purchasing"

Risk: Accounting for expenditures, payables, encumbrances and disbursements inadequate for the purposes of accountability, financial reporting, compliance with laws and regulations and prevention of loss of assets.

Key Controls:
- Account codes are reviewed and approved for the following attributes:
  - Funding source (fund and program).
  - Accounting period (year-end cutoff).
  - Relief of encumbrance (contract identification).
  - Grant identification for federal and state reporting purposes and allowability determination (program).
  - Object coding for description of expenditure items, procurement treatment tax and other reporting purposes, application of travel policies, capital asset recognition and other policy requirements.
- Purchase orders periodically reviewed for unresolved open items.
- Payables are systematically managed and controlled for the purposes of efficiency, ensuring payment and credit for payment, receipt of discounts for early payment and management of budgetary resources.

- Expenditure journal vouchers are supported by adequate documentation with meaningful review and approval.
- Account structure sufficiently designed and maintained to accomplish all reporting and operational objectives.
- Financial software accurately calculates encumbrances.

Risk: Resources lost or stolen through improper or fraudulent cash disbursements.

Key Controls:

- Staff handling disbursements are separate from those handling payables, receivables, bank reconciliation and other incompatible duties.
- Physical security over check writing/printing facilities, material and capabilities (including check stock) ensured.
- Bank statements reconciled monthly in a timely manner.
- Petty cash records reconciled monthly to authorized balance.
- Reconciliation variances rigorously pursued in a timely manner.
- Documentation of the expenditure of petty cash advances is required (receipts returned by employees to show how advances were spent).
- Petty cash fund is kept physically secure at all times.
- Cash disbursement procedure is more fully detailed in the attached document "Internal Control Procedures."

INVENTORY:

The Commission maintains a small quantity of supply items of paper and toner which are inventoried throughout the year.

The Commission maintains a computerized inventory system. Items are removed from the inventory when designated as surplus property. Inventory of all physical, capital items takes place annually.

Risk: Inventory items may be lost, damaged or stolen as a result of poor physical security. Strong physical security will help reduce the state's exposure to lost, stolen or damaged inventory.

Key Controls:

- Physical access to inventory restricted to operational need.
- Environmental controls adequate to protect from physical damage.
- Adequate insurance coverage exists and is periodically reviewed.
- Employees bonded.
- Periodic physical inventory conducted.
- Inventory of capital items are tagged and inventory is reviewed annually.

Risk: Inaccurate recording of physical receipt and shipment/delivery of goods causes errors in perpetual inventory. The receiving and shipping functions are subject to human error in the counting and recording of activity. These controls help ensure that the accounting records accurately reflect the actual physical movement of the inventory.

Key Controls:
- Purchase order information is compared with receipt document.
- Physical quantities received are matched with the receipt document.
- Standard procedures exist for processing overage, shortage and damaged goods.

Risk: Improper inventory levels (excessive and/or deficient) cause inefficiencies in inventory management. These controls help the Commission maintain an optimum level of inventory that balances the cost of maintaining and managing inventory with the risk of not meeting the customer's needs due to lack of stock availability. Too much inventory increases costs related to storage, insurance and handling. Too little inventory can result in a failure to have requested stock on hand.

Key Controls:
- Methodology exists for determining appropriate inventory level, reorder point and amount to order.
- Periodic review of inventory turnover rate to evaluate inventory obsolescence.
- Standard procedures exist for ongoing adjustment of perpetual inventory. Staff make required adjustments as soon as inventory discrepancies are identified and do not wait until completing an annual inventory.
- Management investigates and resolves the causes of inventory discrepancies.

FIXED ASSETS:

The Commission maintains a list of the Commission's capital assets and ensures that the capital assets are properly insured.

Risk: Fixed asset, betterment, improvement, repair/maintenance/construction-in-progress, intangible, capital lease or operating lease is misidentified and errors are made in the determination of cost basis, useful life, salvage value and depreciation method. Identifying the proper expenditure type and depreciation components will ensure the Commission's financial statements will be accurate with respect to fixed asset accounting.

Key Controls:
- Adequate staff training to ensure proper accounting treatment of capital assets
- Review and approval process of payment vouchers includes the accounting implications for capital assets.

Risk: Inadequate physical security of assets. Physically securing the Commission's assets will prevent them from being lost, stolen or damaged.

Key Controls:
- Assets secured within locked facilities.
- Adequate insurance for all assets.

- Inventory of capital items are tagged and inventory is reviewed annually.

Risk: Non-compliance with physical inventory procedures may allow for unintended losses. Taking a periodic physical inventory will ensure the physical accountability of the Commission's fixed assets.

Key Controls:

- The following characteristics are undertaken by the Commission:
  - Annual physical inventory.
  - Inventory performed by personnel with no direct oversight responsibility.
  - Physical inventory instructions distributed and explained.
  - Policies and procedures in place for proper tracking of fixed assets relocated within Commission or disposal.
  - Inventory records maintained for three years.

Risk: Improper disposal of assets may result in the Commission not obtaining the best possible price and/or a consistent disposition of the assets. Using the Commission's surplus property policy will ensure a consistent and fair methodology in disposing of the Commission's fixed assets while obtaining maximum value for the assets.

Key Controls:

- Items will be sold to the highest bidder or leased by the most economically advantageous proposal. Items not sold or claimed shall be disposed of properly.

FINANCIAL REPORTING:

The Commission has an annual audit performed, subject to the Single Audit Act. The Commission also completes quarterly and or annual financial reports to the Economic Development Administration, the Missouri Department of Transportation, the State Emergency Management Agency, the Delta Regional Authority and the Missouri Office of Administration. Reports account for receipts and expenditures and must match the records of the contracting agency.

FEDERAL COMPLIANCE:

All federal funds are remitted to the Commission through the Missouri Department of Transportation, the State Emergency Management Agency, The U. S. Department of Commerce, and the Delta Regional Authority. The Commission purchases Homeland Security Equipment for subrecipients.

Allowability:

Risk: Activities, direct costs or indirect costs that are supported with federal grant resources are not allowed under the grant.

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Key Controls:

- Knowledgeable staff and management identify and communicate guidance on allowability available in grant documentation and other federal guidance.
- Requirements are incorporated into procedures for financial cycles as appropriate.
- Account structure includes segregation of expenditures by federal program sufficient to identify programs for allowability approval and to facilitate federal reporting.
- Procurement/payables cycle procedures include routing of federal program payment vouchers to personnel knowledgeable about allowability.
- Personnel services charged to grant accounts are pre-approved and reflect time spent working on the program or approved cost allocation.
- Review of grant revenue transfers includes review for allowability.
- Analytical review of federal accounts is conducted periodically to identify potentially material issues.
- Ongoing comparison between budgeted and actual grant expenditures is made to detect potentially material issues.
- RFPs, vendor contracts and subrecipient grant agreements are written by staff knowledgeable of federal allowability requirements.
- Approval of contracts and agreements includes review of allowability of goods and services under the federal grant supplying the funding.
- All journals undergo allowability approval/review process based on adequate, supporting documentation.

Risk: Cost allocation methodology not approved by federal government or not appropriate for all grants affected.

Key Controls:

- Cost allocation is implemented only upon approval of the federal agency.

Risk: Cost allocation methodology applied incorrectly/inconsistently.

Key Controls:

- Meaningful review occurs prior to approval of allocation journals and other transactions reflecting allocation.
- New employees are trained in currently used cost allocation plan and in subsequent changes.
- Written guidance is updated regularly and made available to involved personnel.

Cash Management:

Risk: Incorrect cash management methodology used or correct method inconsistently applied to draw down federal cash.

Key Controls:

- The majority of federal funds payout is related to Homeland Security equipment purchase and is controlled by the State Emergency Management Agency and must be approved and entered into the State's Electronic Grants Management System
- Other minor cash draw down is directly tied to cash need as measured by expenditures (prospective or past).
- Timely periodic analytical review of budgetary, expenditure and revenue accounts are performed to ensure that future funding needs will be met.

Risk: (Reimbursement Basis Only) Funds are not expended before receipt of federal reimbursement.

Key Controls:

- Invoices and/or Final Expenditure Reports are prepared before cash is received.

Risk: (When estimated revenue is recognized in program account) Federal funds are not drawn down in a timely manner to reimburse the Commission.

Key Controls:

- Drawdown methodology adequately designed to perform timely drawdown.
- Supervisory review/approval of cash receipts includes consideration of the timing of the cash drawdown.
- Analytical review of methodology application occurs periodically.

Period of Availability:

Risk: Funds expended, or obligated for expenditure, outside of the period for which the funds were granted.

Key Controls:

- Realistic budgetary and other planning practices facilitate expending funds in the correct period. Sufficient allocation is therefore available to expend the full grant award.
- End of grant period cut-off activities and review processes provide assurance that funds are expended in the correct period.
- Expenditure approval process includes a review of proper grant period coding.

Procurement and Suspension Debarment:

Risk: State procurement rules are not followed for federally funded expenditures and contracts.

Key Controls:

- Except where varying conditions apply for contract riders (Davis Bacon, Suspension and Debarment, etc.), state procurement rules are applied in the exact same manner to both federal and state funded expenditures and contracts.

Program Income:

Risk: Program income is not used in accordance with program requirements.

Key Controls:

- Requirements for proper collection and use of program income are identified in federal guidance and communicated to personnel.
- Account structure and transaction coding procedures are sufficient to specifically identify program income and its subsequent expenditure.
- Approval/review of expenditures and cash draw downs includes consideration of the proper use of program income.

Reporting:

Risk: Reports are not filed in a timely manner or not at all.

Key Controls:

- Management identifies reporting requirements in federal and state guidance and through communication with oversight personnel.
- Both financial/program managers and staff responsible for completion of reports schedule report submission deadlines.
- Ending review checklists for the federal program include items for each required report.
- The federal oversight agency communicates positive confirmation of the receipt and adequacy of required reports.

Risk: Filed reports are inaccurate or incomplete.

Key Controls:

- Account structure is sufficient to accumulate all categories of information required for reporting.
- Transaction coding and review procedures take into account required reporting classifications.
- Review of reports is conducted prior to submission, and sufficient supporting documentation is included to facilitate a complete, meaningful review.

Other compliance requirements covered by OMB A-133 Compliance Supplement.

Other financial related federal compliance requirements not covered by the OMB A-133 Compliance Supplement.

Overall Future Recommendations:

- The Executive Director and the Fiscal Officer should review all internal controls and enhance procedures document for the Commission personnel.

- The Executive Director should work with and support the Board in its role to review and monitor the internal controls of the Commission.

Control Environment

Points of Focus	Description/Comments
Integrity and Ethical Values	
Management must convey the message that integrity and ethical values cannot be compromised, and employees must receive and understand that message. Management must continually demonstrate, through words and actions, a commitment to high ethical standards.	The attached "Code of Ethics for the Southeast Missouri Regional Planning and Economic Development Commission's Staff" details the conduct that must be adhered to by all staff. The attached "Anti-Fraud and Corruption Policy" calls for suspected fraud, theft or misuse to be reported immediately and will result in disciplinary action which may include termination
• **Existence and implementation of codes of conduct and other policies regarding acceptable business practice, conflicts of interest, or expected standards of ethical and moral behavior.** For example, consider whether:	
◦ Codes are comprehensive, addressing conflicts of interest, illegal or other improper payments, anticompetitive guidelines, insider trading.	The attached Anti-Fraud and Corruption Policy and Code of Ethics attachments detail the expected behavior of Board and staff.
◦ Codes are periodically acknowledged by all employees.	The Commission conducts staff training on policy issues.

• Employees understand what behavior is acceptable or unacceptable, and know what to do if they encounter improper behavior.	Management at all levels is responsible for ensuring that their staff members are aware of their responsibility in relation to safeguarding the resources for which they are responsible and for reporting suspected irregularities. Management should also strive to create an environment in which their staff members feel able to approach them with any concerns they may have about suspected irregularities.
• If a written code of conduct does not exist, the management culture emphasizes the importance of integrity and ethical behavior. This may be communicated orally in staff meetings, in one-on-one interface, or by example when dealing with day-to-day activities.	A written Codes of Ethics is in-place. A written Internal Control Procedure is also in–place.
• **Establishment of the "tone at the top"—including explicit moral guidance about what is right and wrong—and extent of its communication throughout the organization.** For example, consider whether:	
• Commitment to integrity and ethics is communicated effectively throughout the enterprise, both in words and deeds.	This is communicated both through Board policies as well as in communications within the Commission.
• Employees feel peer pressure to do the right thing, or cut corners to make a "quick buck."	Commission employees are held accountable by state and federal laws and regulations and Commission policy. Therefore employees know they should do the right thing as the consequences can be very detrimental to the Commission as well as to the public and themselves.

- Management appropriately deals with signs that problems exist (e.g., potential defective products or hazardous wastes), especially when the cost of identifying problems and dealing with the issues could be large.

  Management appropriately deals with potential problems within the Commission, especially since problems in these areas tend to be of significance and can be very well publicized through the media.

- **Dealings with employees, suppliers, customers, investors, creditors, insurers, competitors, and auditors, etc. (e.g., whether management conducts business on a high ethical plane, and insists that others do so, or pays little attention to ethical issues).** For example, consider whether:

  - Everyday dealings with customers, suppliers, employees and other parties are based on honesty and fairness (e.g., customer's overpayment or a supplier's under billing are not ignored, no efforts are made to find a way to reject an employee's legitimate claim for benefits, and reports to lenders are complete, accurate and not misleading).

    Dealings with vendors and staff are maintained with fairness such that vendor payments are reconciled and reviewed. Vendors have the opportunity to bid on services through an RFP process. Employees are dealt with on a fair and consistent basis.

- **Appropriateness of remedial action taken in response to departures from approved policies and procedures or violations of the code of conduct. Extent to which remedial action is communicated or otherwise becomes known throughout the entity**. For example, consider whether:

  - Management responds to violations of behavioral standards.

    Employees are evaluated on an annual basis regarding performance; however, if instances occur that require disciplinary action during the year, then it will be addressed at that time. The employee manual addresses suspensions and dismissal of employees.

- Disciplinary actions taken as a result of violations are widely communicated in the entity. Employees believe that, if caught violating behavioral standards, they'll suffer the consequences.	The Personnel Manual addresses suspensions and dismissal of employees.
• **Management's attitude towards intervention or overriding established controls.** For example, consider whether:	
- Management has provided guidance on the situations and frequency with which intervention may be needed.	Intervention or overriding established controls is not considered allowable; policies, regulations, and procedures are considered adequate.
- Management intervention is documented and explained appropriately.	
- Manager override is explicitly prohibited.	Yes.
- Deviations from established policies are investigated and documented.	
• **Pressure to meet unrealistic performance targets—particularly for short-term results—and extent to which compensation is based on achieving those performance targets.** For example, consider whether:	The Commission does not grant bonuses for exceptional service.
- Conditions such as extreme incentives or temptations exist that can unnecessarily and unfairly test people's adherence to ethical values.	None should exist.
- Compensation and promotions are based solely on achievement of short-term performance targets.	Not recognized.
- Controls are in place to reduce temptations that might otherwise exist.	

Conclusions/Actions Needed

Integrity and ethical values are communicated in the Commission's policies. All employees are directed by administration as to the importance of ethics and integrity since they deal with taxpayer-funded resources.

No action needed.

Conclusions/Actions Needed

Internal control deficiencies are identified and proper follow-up is conducted by the Commission by having training sessions with the personnel, through ongoing day-to-day activities, by the external auditors, and through management's discussions.

No action needed at this time.

Component Summary—Conclusions/Actions Needed

The Commission does an adequate job of monitoring its internal control structure; however, improvements could be made, including improving documentation of an evaluation process, establishing criteria for which to evaluate internal controls, and regular workshops with administrative assistants regarding proper internal controls and feedback associated with their effectiveness.