

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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STATE AND LOCAL GOVERNMENT FINANCE DIVISION

Module 8: Importance of Internal Controls

Importance of Internal Controls

- “Stewardship” is the careful and responsible management of something that is entrusted into your care.
- Governing officials have a stewardship responsibility to manage public money in a careful, responsible way.
- It is the responsibility of the governing board to make sure internal controls are in place and working.



Importance of Internal Controls

- Internal control policies and procedures help protect assets and ensure accountability.
- The LGC staff, auditor, or finance staff can assist with setting up strong internal controls.
- Memo for Small Governments (Memo 2015-15) on LGC website [here](#) .

Memorandum #2015-15 (Revision of Memo #568 and #569)

TO: Finance Officers of Small North Carolina Governments and Public Authorities

FROM: Sharon Edmundson, Director, Fiscal Management Section

SUBJECT: Internal Controls for a Small Unit of Government

DATE: April 30, 2015

Included in this memo is information that will help smaller units strengthen their internal controls. Elected officials and governmental employees are accountable for resources entrusted to them and for ensuring that programs and services are administered effectively and efficiently. A significant component in fulfilling this responsibility is ensuring that an adequate system of internal control exists within each governmental unit. Whether a unit of government has strong or weak internal controls directly affects the reliability of the accounting records and financial statements. Strong internal controls aid in the prevention of fraud and the detection of accidental errors in the accounting process. Internal controls provide greater assurance of the accuracy of financial reporting, compliance with laws and regulations, and effective and efficient operations.

One method that a unit can use to enhance its internal control is through proper segregation of duties. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. Without proper segregation of duties, it is impossible to have an effective system of internal control. There are two main advantages to implementing segregation of duties: the first is that fraud is more difficult to perpetrate when proper segregation of duties are in place because it would require collusion of two or more individuals; second, if duties are adequately separated, innocent errors are more likely to be found and corrected.

Extensive separation of duties is not always possible for smaller units of local government. In such cases, the duties should be separated as much as possible and alternative controls used to compensate for lack of separation. Members of the governing board must be called upon to provide some of these controls; they are generally very familiar with operations and likely to spot unfamiliar vendors and transactions. Also, due to knowledge of unit and community, they will be able to determine if explanations for unusual transactions are valid.

This memo is addressed specifically to the smaller units where internal controls may not be as effective due to the limited number of personnel. For a more comprehensive discussion of internal controls, please refer to the [internal controls section of the policy manual](#).



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A handwritten signature in blue ink that reads "Dale R. Folwell, CPA".

Importance of Internal Controls

Three objectives for internal controls

1. Reliability of financial reporting
2. Efficient and effective operations
3. Compliance with applicable laws and regulations



Importance of Internal Controls

Warning signs of internal control problems

1. Missing or delayed financial audits.
2. Delayed or inaccurate bank and other account reconciliations.



Importance of Internal Controls

3. The board is not receiving accurate monthly financial statements
4. Expenditures exceed authorized budget on a regular basis
5. Sensitive documents are easily accessible



Importance of Internal Controls

Boards should implement strong written policies for

1. Credit cards and procurement cards (p-cards)
2. Petty cash and reconciliations
3. Cash receipts and deposits



Resources

LGC Staff (919)-814-4300

[LGC Website](#)

<https://www.sog.unc.edu>

www.nclm.org

www.ncacc.org

<https://www.gfoa.org/best-practices--resources>



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Module 8

1. What is the careful and responsible management of something that is entrusted into your care?
2. What are policies and procedures that help protect assets and ensure accountability?
3. What is one warning signs of internal control problems?

