

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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STATE TREASURER OF NORTH CAROLINA

Module 6: Internal Controls



Definitions

- As defined by statute, an **internal control** is “an integral process, effected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives related to the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.”^[1]
- **Put simply**, “... internal controls help units achieve the things they want to happen, and ... prevent unwanted events from occurring.”^[2]

^[1][G.S. 143D-3\(1\)](#) ^[2][Rebecca Badgett, “Internal Control in Financial Management: Understanding the Basics”](#)



Definitions

Three core objectives of internal controls for units of local government:

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





Definitions

- **Stewardship** is the careful and responsible management of something that is entrusted into your care.
- Governing boards have a **stewardship responsibility** to manage public money in a careful, responsible way.





Implementing Internal Controls

- It is the responsibility of the governing board to ensure that internal controls are established and strictly adhered to.
- Properly implemented internal control policies/procedures will help to:
 - Protect assets
 - Ensure accountability
 - Guard against fraud, mistakes and other risks of loss
- The board should work closely with the finance officer and other management personnel to maintain strong internal controls.
- For information and guidance on internal controls, units can consult:
 - [SLGFD Memo #2015-15](#) (for small units)
 - [N.C. Local Government Finance Policy Manual, Chapter 9](#)
 - Sample policy documents at the end of this module



Implementing Internal Controls

Internal controls can and should be implemented for a wide variety of different functions and processes within a unit.

At a minimum, governing boards should ensure that strong written policies/procedures are in place for the following:

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





Diagnosing Control Failures

Any of these may be warning signs of weak or failing internal controls:

1. Financial audits are missing or delayed.
2. Bank and other account reconciliations are delayed or inaccurate.
3. The board is not receiving timely and complete monthly financial statements.
4. Expenditures exceed authorized budget on a regular basis.



LGC Authority Over Internal Controls

Governing boards should be aware that the Local Government Commission (LGC) is empowered by statute^[3] to:

1. Issue rules and regulations governing units' procedures for receiving, depositing, investing, transferring, and disbursing money or other assets.
2. Investigate the internal control procedures of a unit.
3. Require necessary or desirable modifications to a unit's internal control procedures.



^[3][G.S. 159-25\(c\)](#)



Resources

- [N.C. Local Government Finance Policy Manual, Chapter 9: Internal Controls \(UNC School of Government\)](#)
- [The Internal Control Process \(UNC School of Government\)](#)
- [Internal Control in Financial Management: Understanding the Basics \(UNC School of Government\)](#)
- [SLGFD Memo #2015-15: Internal Controls for a Small Unit of Government](#)
- [Internal Controls Over Petty Cash](#)
- [Internal Controls Over Cash Receipts and Deposits](#)
- [Internal Controls Over Inventory and Capital Assets](#)
- [Sample Credit Card Policy](#)
- [Sample Fleet Maintenance Policy](#)



Resources



- UNC School of Government
 - NC Finance Connect
 - Finance Calendar of Duties
 - NC Local Government Finance 101
 - NC League of Municipalities
 - North Carolina Association of County Commissioners
 - Government Finance Officers Association - Best Practices & Resources
- **Contact LGC Staff:** (919) 814-4300
 - **Visit the LGC Website**
 - **Sign up for the LGC Staff Blog**
 - **Stay up to date with SLGFD Memos**



Quiz: Module 6

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 sign of internal control problems?

