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ACES EDUCATION SERVICES
What Works Wednesday

***SERIES PRESENTATION***

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# Lock It Down:

## Smart Internal Control Basics for Every Team

NOVEMBER 11, 2026

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## Agenda

- Definition Of Internal Controls
- What internal controls are and why they matter
- Standards of Control
- Application/Use
- Q&A/Discussion

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## DEFINITION: INTERNAL CONTROLS

The
- Policies
- Procedures and
- Processes

an organization uses to ensure accurate financial reporting, safeguard assets, prevent fraud, and comply with law.

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## *AS DEFINED IN ACCOUNTING AND AUDITING:*

A process for assuring achievement of an organization's objectives in:

- Operational effectiveness and efficiency
- Accurate and reliable financial reporting, and
- Compliance with laws, regulations and policies



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## WHY INTERNAL CONTROLS MATTER

- Proactive approach to help: prevent errors and irregularities from occurring, being able to identify if they do, and having plans in place to address
- Essential for safeguarding public funds
- Protect assets (including employees)
- Minimize the opportunity for fraud
- Helps agencies be process-dependent instead of person-dependent
- Encourage and help ensure adherence to missions, policies, procedures, goals, objectives and law
- Funding
- Perception

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## FIVE STANDARDS FOR INTERNAL CONTROL




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## CONTROL ENVIRONMENT



**TONE AND COMPLIANCE BEGINS AT THE TOP**

Critical for upper management to endorse, support and lead by example to be successful.

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## WHERE TO START?




**Entity Level Controls:**

**Organization-wide governance and oversight mechanisms that set the "tone at the top" and influence the reliability of all lower-level controls.**

Consider threats that might have a pervasive effect on the entire organization

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Can you think of an example?

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- Code of Conduct/Ethics Policy; Communication and enforcement of integrity and ethical values
- Corporate Governance Structure; Management's Attitude
- Risk Assessment & Management
- Management Review Process/Management Override
- IT Environment and Organization
- Whistleblower/Reporting Mechanism
- Access and Security
- Compliance Oversight
- Hiring, Training, Promotion and Retention Practices
- Policy Approval and Update Process
- Independent Monitoring and Self-Assessment

## COMMON ENTITY-LEVEL CONTROLS

Entity-level controls shape the control environment, influence and design and effectiveness of process-level controls and are critical for compliance.

Weaknesses in entity-level controls can undermine the entire system.

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## Activity Level Controls





Are directly related to business activities

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- Automated Transaction Monitoring
- Segregation of Duties
- Spending Caps, Debt Monitoring, Pre-Payment Checks
- Clear Lines of Authority & Dual Authorization
- System-Based Authorizations & Validations
- Periodic Reconciliations and Audits
- Compliance Checks
- Access Controls Tied to Specific Processes
- Inventory Reconciliations
- Training and Supervision
- Standard Operating Procedures

## COMMON ACTIVITY LEVEL CONTROLS

Activity-level controls are targeted internal controls embedded within specific departments, sub-departments, or processes to identify, mitigate, and manage the risks inherent in those activities, ensuring operational integrity, compliance, and timely detection of errors or irregularities

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## The Fraud Triangle




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## RISK ASSESSMENT:

**Identification and analysis of relevant risks (both internal and external) to achievement of objectives/function which forms a basis for determining how the risk should be managed.**

**When determining what actions are needed for a risk, consider two things:**

- *How likely is the risk to happen?*
- *How serious would the impact be if it happened?*

**Then decide to:**

- *Avoid the risk if it is too dangerous*
- *Reduce the risk with controls (approvals, reviews, segregation of duties, monitoring, etc.)*
- *Transfer the risk to someone else (such as through insurance or contracts)*
- *Accept the risk if it is low and the cost/burden of additional controls outweighs the benefit*

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## CONTROL ACTIVITIES

**Control activities** are actions governed by **policies, procedures and actions** that help ensure objectives carried out.

**First line of defense:**

- People inside the trenches: those who perform day-to-day activities as part of regular duties
- Management at all levels – ensure staff follow procedures and that controls align with departmental/organizational goals

**Second line of defense**: risk management, compliance, legal and similar functions

- Clarify control requirements
- Develop policies
- Evaluate adherence



**Third line of defense**: (Internal Auditors)

- Independently assess whether controls are operating effectively
- Do not perform controls but instead evaluate and recommend change/improvements

**Governing board** – Provides expectations, governance, and oversight

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## INFORMATION AND COMMUNICATION

Information and communication systems support the **identification, capture, and exchange** of information in a form and time frame that enable management and other appropriate personnel people to carry out their responsibilities.



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## MONITORING:

**A process that assesses the quality of internal control performance**

**Ongoing monitoring should be done periodically regarding the internal controls themselves**

- To assure they are still effective
- Personnel should routinely obtain evidence to ensure functionality and to identify any problems

**Audit Resolution:**

- Management implements internal control recommendations from internal and independent auditors
- Corrects known deficiencies on a timely basis
- Responds appropriately to reports and recommendations

**Internal control monitoring is the process of evaluating whether a control is operating as designed, being performed consistently, and achieving its intended purpose.**

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## Wrap Up

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# Thank you

QUESTIONS?

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