



INTERNAL CONTROLS BULLETIN

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Monitoring – Internal Audits

While the melting snow is a welcome sight, it brings along many risks, especially this year. The high amount of snow resulted in flood risks across the country, putting many homes and lives in danger. Some people are already experiencing water problems in their homes. In some cases the first line of defense, proper grading and foundation drainage systems, have aged or shifted. The second line of defense, the sump pump, is working overtime to keep water from taking over the basement. Even with proper testing and maintenance, the pump could fail. With both of these defense mechanisms having weaknesses, homeowners can count on the third line of defense. Homeowners can monitor from the inside to see where water is entering, find the water leaks, and take corrective action to fix the problem.

Last month, in the first installment of our three-part series on monitoring, we covered external audits. In this bulletin, we will discuss internal audits. Internal audit is an integral part of any agency, used to evaluate and improve the effectiveness of internal controls and assist in risk management. It is often referred to as the third line of defense. While this function is in-house, if it is properly implemented and has the right lines of reporting, it can offer independent and objective testing, and can provide assurance that controls are in place to mitigate risk.

Testing of agency controls is geared toward improving operational efficiency, ensuring reliable and accurate reporting, and compliance. Internal auditors review processes and procedures, assess and test current controls, evaluate risks and recommend corrective action. They report test

results to management, which is crucial to creating corrective action to mitigate risk. Advocating for process improvements increases accountability in the agency, improves the control environment, and lowers opportunity for fraud, waste, and abuse. Internal audit provides valuable insight to the inner workings of an agency, because testing and analyzing processes gives an objective and new overview.

Even if an agency does not have a formal internal audit function, adding monitoring steps can help ensure effective controls. These can include:

- Identifying key internal controls and ensuring they work as intended
- Examining key transactions on a regular basis for proper authorization and execution
- Using data analytics to identify unusual transactions or transactions of a certain size

Next month, in the last bulletin in our three-part series, we will cover functional monitoring which, combined with internal and external audits, form a basis for an excellent monitoring function.

Questions?

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