



# **Financial Risk Assessment & Controls:**

## ***An Internal Control Project***

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## Overview of the County's Annual FRAC Project:

1. What does FRAC Stand for?
2. What is FRAC?
3. What are the FRAC components?
4. Who is involved?
5. Statistical Data
6. Summary





# {1} What does FRAC Stand for?



FRAC stands for...

**F**inancial  
**R**isk  
**A**ssessment &  
**C**ontrols

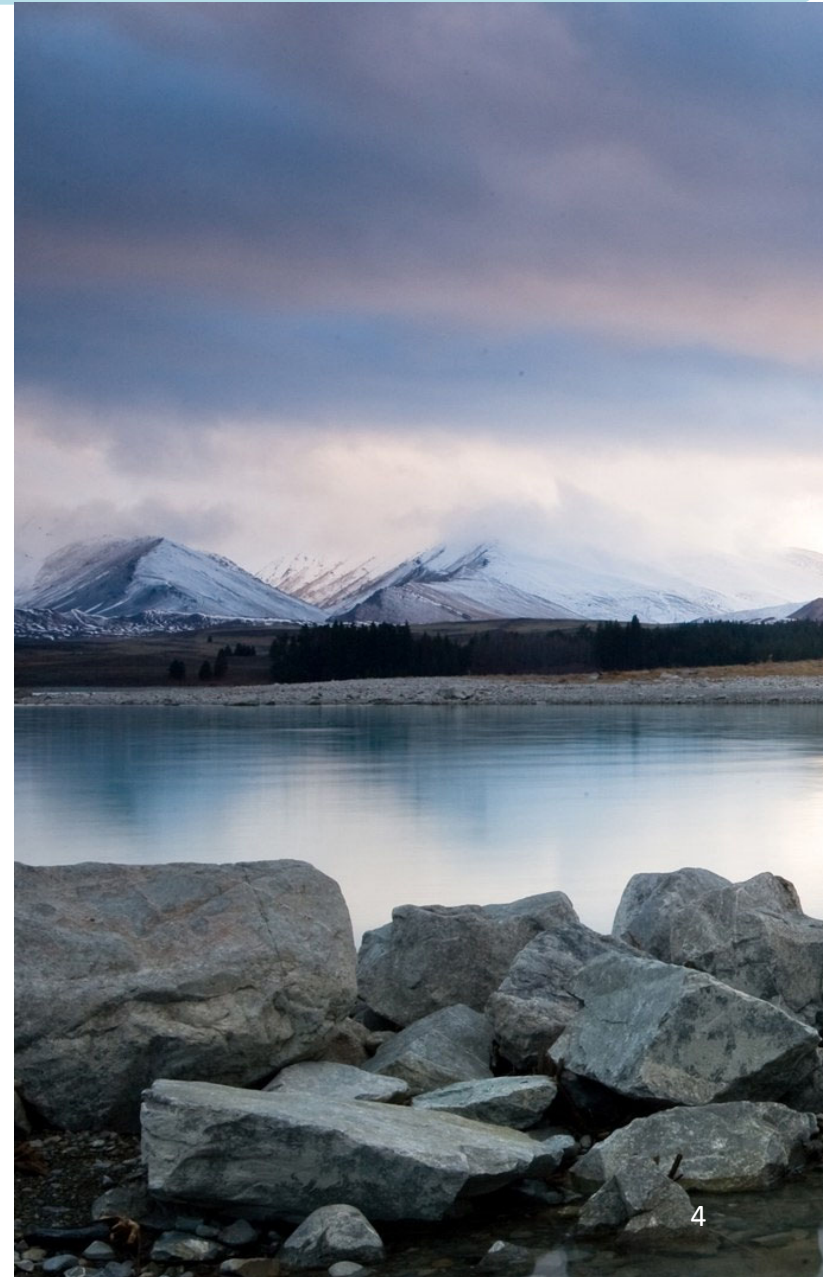
## {2} What is FRAC? *(Continued)*

### 2008 to Present

Statements on Auditing Standards (SAS) issued in 2008, introduced major changes and guidance for the conduct of audits of nonpublic companies and government entities. As a response to these requirements, the County developed the FRAC Project.

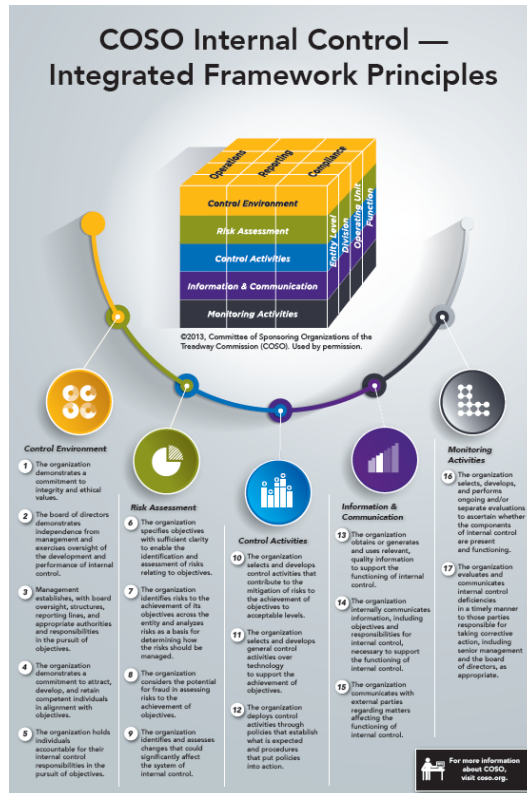
### Some of the goals behind these standards:

- 1 To Enhance auditor understanding of risk
- 2 Identify material risks related to fraud
- 3 Reduce the risk of material misstatements
- 4 Improve the quality and effectiveness of audits
- 5 Establish better communication and documentation of internal control matters



# COSO Internal Control

Managers of *all organizations* share 3 basic objectives:



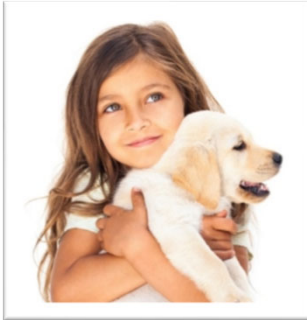
- 1) **Compliance** – Managers must operate within certain constraints. Some of those constraints are imposed by parties external to the organization (laws and regulations, contractual obligations). Other constraints are imposed by the organization's governing body (investment policy). Managers are responsible for both ensuring and demonstrating compliance with these constraints.
- 2) **Operations** – Managers are responsible for ensuring that the organizations they manage operate both *effectively* and *efficiently*. Efficiency presupposes effectiveness (resources can't be well spent if the spending doesn't achieve its intended purpose).
  - a. An organization is effective if it is successful in achieving its purpose.
  - b. An organization is efficient if it makes the best use of scarce resources.
- 3) **Reporting** – Managers are responsible for providing an accounting of their stewardship of the resources entrusted to their care. Such an accounting requires, at a minimum, the preparation of reliable financial reports for the benefit of those to whom managers are accountable.



# Integrated Objectives

1

Compliance



2

Operations



**ORACLE®**  
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3

Reporting

4

FRAC  
Season

## {2} What is FRAC? (Continued)

### Internal Control Objectives

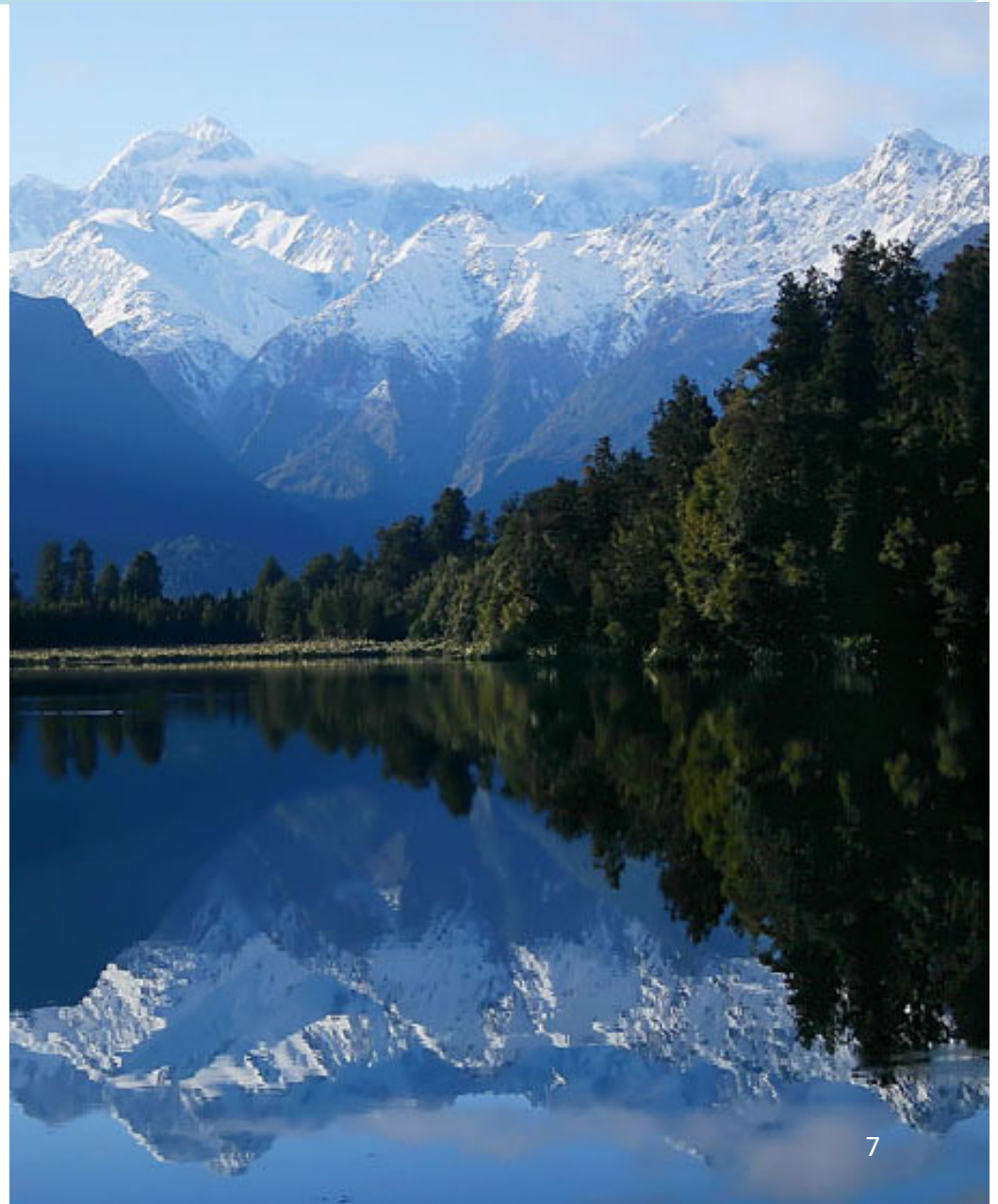


#### NATURE AND PURPOSE OF THE REPORTING OBJECTIVE

Managers are responsible for providing an accounting of their stewardship of the resources entrusted to their care. Such an accounting requires, at a minimum, *the preparation of reliable financial reports* for the benefit of those to whom managers are accountable (that is, those charged with governance)

#### Question for the Manager:

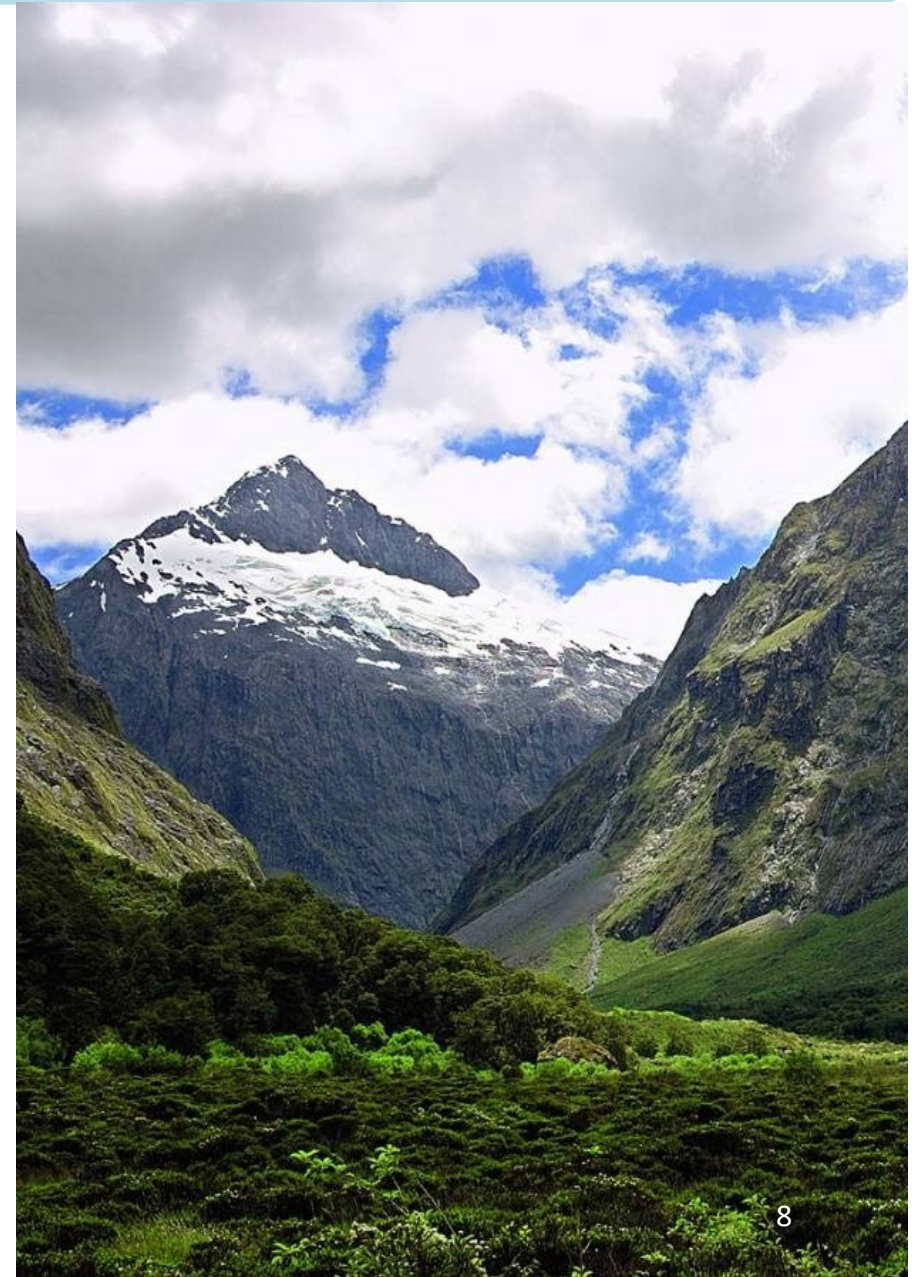
As a manager, **HOW** do you **KNOW** that the financial statements are fairly presented?





# {3} What are the FRAC Components?

	Business Areas
1	Accela - AWM
2	Accela - PDS
3	Accounts Payable (AP)
4	Accounts Receivable (AR)
5	Budget (BUD)
6	Capital Outlay (CAP)
7	Cash Management (Cash)
8	Control Environment (Control)
9	Cost Allocation Plan (A87)
10	Debt Management (Debt)
11	Financial Reporting (CAFR)
12	Fixed Assets (FA)
13	General Ledger (GL)
14	Human Resources (HR)
15	Information Technology (IT)
16	Payroll (PAY)
17	P-Card (PCARD)
18	Grants – HHSA (PNG-HHSA/HCD)
19	Grants – Probation (PNG-PROB)
20	Grants – General (PNG)
21	Property Tax (PTAX)
22	Purchasing (PUR)
23	Risk Management Liability (RISK – HR/CC)
24	SEFA
25	Time Keeping (TIME)
26	Year-End (YE)
27	Inventory (INV)
28	Grants - Sheriff





# {3} What are the FRAC Components? *(Continued)*

## Three - Phase Model



	1. Risk Assessment	2. Audit Review	3. Risk Control
Input	In this phase, risk eligible business areas are identified and documented or updated.	In this phase the assessment prepared in phase 1 is submitted to internal and external auditors for review and testing.	In this phase, business area findings are evaluated and are implemented or resolved.
Output	Assessment Tools: <ul style="list-style-type: none"> <li>• Control matrix</li> <li>• PAD</li> <li>• Process Flow</li> <li>• Supporting Documentation</li> <li>• Review Sign-off sheets</li> </ul>	Review Tools: <ul style="list-style-type: none"> <li>• Issue log</li> <li>• Recommendations</li> <li>• Status reports</li> </ul>	Updates to... <ul style="list-style-type: none"> <li>• Issue log</li> <li>• Status reports</li> <li>• Control matrix</li> <li>• PAD</li> <li>• Process Flow</li> <li>• Supporting Documentation</li> <li>• Operational changes</li> </ul>



# {3} What are the FRAC Components? *(Continued)*

## 1. Control Matrix

Control No.	What Could Go Wrong? (WCOW)	Transaction & Event Assertions	Period and Account Assertions	Presentation & Disclosure Assertions	Control Activity	Contact Name	Type of Control	Control Objectives	System Application Name	Control Ranking* (Hotkey: Notation Key)	Name/Description	Hyperlink	Control Activity Frequency (Daily, Weekly, Monthly, Quarterly, Annual)	Comments/Notes
1. Documents		1. Occurrences	1. Period and Account	1. Presentation & Disclosure			Preventive	Existence, Completeness, Accuracy, Valuation						
2. Transactions		2. Transactions	2. Period and Account	2. Presentation & Disclosure			Preventive	Existence, Completeness, Accuracy, Valuation						
3. Balances		3. Balances	3. Period and Account	3. Presentation & Disclosure			Preventive	Existence, Completeness, Accuracy, Valuation						
4. Cash		4. Cash	4. Period and Account	4. Presentation & Disclosure			Preventive	Existence, Completeness, Accuracy, Valuation						
5. Other Assets		5. Other Assets	5. Period and Account	5. Presentation & Disclosure			Preventive	Existence, Completeness, Accuracy, Valuation						
6. Liabilities		6. Liabilities	6. Period and Account	6. Presentation & Disclosure			Preventive	Existence, Completeness, Accuracy, Valuation						
7. Rights & Obligations		7. Rights & Obligations	7. Period and Account	7. Presentation & Disclosure			Preventive	Existence, Completeness, Accuracy, Valuation						
8. Other Liabilities		8. Other Liabilities	8. Period and Account	8. Presentation & Disclosure			Preventive	Existence, Completeness, Accuracy, Valuation						
9. Other Assets		9. Other Assets	9. Period and Account	9. Presentation & Disclosure			Preventive	Existence, Completeness, Accuracy, Valuation						
10. Documents & Rights & Obligations		10. Documents & Rights & Obligations	10. Period and Account	10. Presentation & Disclosure			Preventive	Existence, Completeness, Accuracy, Valuation						
11. Documents & Rights & Obligations		11. Documents & Rights & Obligations	11. Period and Account	11. Presentation & Disclosure			Preventive	Existence, Completeness, Accuracy, Valuation						
12. Documents & Rights & Obligations		12. Documents & Rights & Obligations	12. Period and Account	12. Presentation & Disclosure			Preventive	Existence, Completeness, Accuracy, Valuation						
13. Documents & Rights & Obligations		13. Documents & Rights & Obligations	13. Period and Account	13. Presentation & Disclosure			Preventive	Existence, Completeness, Accuracy, Valuation						

The control matrix is an excel spreadsheet that documents the risk areas and the controls in place to address them.

## Assessment Tools

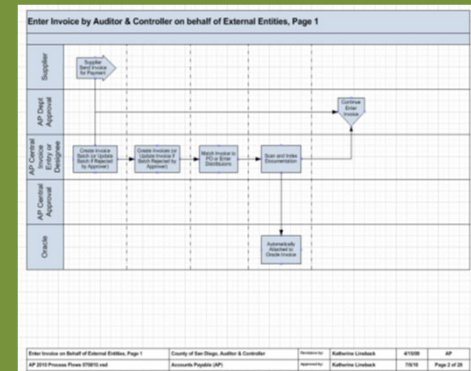
## 2. Process Analysis Document (PAD)

Business Process  
Process Analysis Document  
Fiscal year 20xx-xx

Background:  
Inputs:  
Outputs:  
Other special notes related to the process:

The PAD is a word document that describes the process at a high level providing the inputs, outputs, sources and activities. Tables and charts may be added to the document to clarify and provide the reader a better understanding of the process at a high level.

## 3. Process Flows



These are Microsoft Visio flow charts that provide a visual picture of the process, depicts clear lines of responsibility and identifies the key control points.



# Example

## WCGW

Projects are closed in the Oracle Projects & Grants module without authorization, resulting in transactions being recorded incorrectly in the GL.

## Control

On an as-needed basis, **projects are end-dated** in PNG. Only PRGA staff are authorized and have the ability to close projects. Oracle system controls do not allow departments to close projects.

## Procedure

Oracle PNG Administration Review Transactions Table

**Control Activity** This column captures the various controls in place that address the risks identified in the "What Could Go Wrong?" column. Control activities can include approvals, authorizations, verifications, reconciliations, reviews, etc. Your control wording must include these six components:

1. **Who:** The position/title of person that performs or receives the output of this task/control
2. **What:** Describe the task/control to include specific reports, documents, forms, policies, guidelines, procedures, etc.
3. **Where:** Identify whether the task/control is performed in an automated system, manually in a spreadsheet, third party tool, etc. It should also include a specific division or section if applicable.
4. **How:** Use action words to describe how the task is performed. When possible mention the output such as signoffs, emails, scanning documents, etc.
5. **Why:** What is the purpose of the task/control? Why is it important to do this? What will happen when this task is performed? What does it ensure or avoid?
6. **When:** Include the frequency of the task/control. How often is it performed? (For example: every Wednesday, after each pay period, on the 3rd day of month, monthly, at purchase, at point of entry, upon receiving, at month-end, etc.)

**WCGW** This column captures all the risks identified related to the business area. It must have what can go wrong and the anticipated impact on the process. Use the following formula:

Non-Fraud Risk

(What can go wrong) + "resulting in" + (impact/consequence anticipated)

Fraud Risk

(Describe Fraud Scheme) + "resulting in" + (impact/consequence anticipated)

## MATRIX CHECKLIST

✓	Task
	Does the template provided in SharePoint match last year's final version? If not please upload into SharePoint and notify FRAC Team at <a href="mailto:gabriela.pena@sdcounty.ca.gov">gabriela.pena@sdcounty.ca.gov</a> .
	Has there been a major or significant change in the business process or a part of the process that may impact your existing controls and risks?
	Are you missing any new key controls?
	Are the contact names updated?
	Are all fraud related controls tagged on the matrix? (either under the fraud objective, the fraud section or both)
	Has there been an upgrade in your applications that requires you to reassess your controls?
	Are the key control items labeled as such?
	Are your written procedures updated?
	Are your linked documents updated?
	Are your linked documents saved in the correct SharePoint folder?
	Are the comments still applicable?

## {4} Who is involved?



- FRAC Team (FAR)
- Management (A&C)
- Internal auditors (OAAS)
- Business owners (Departments)
- External auditors (Currently MGO)

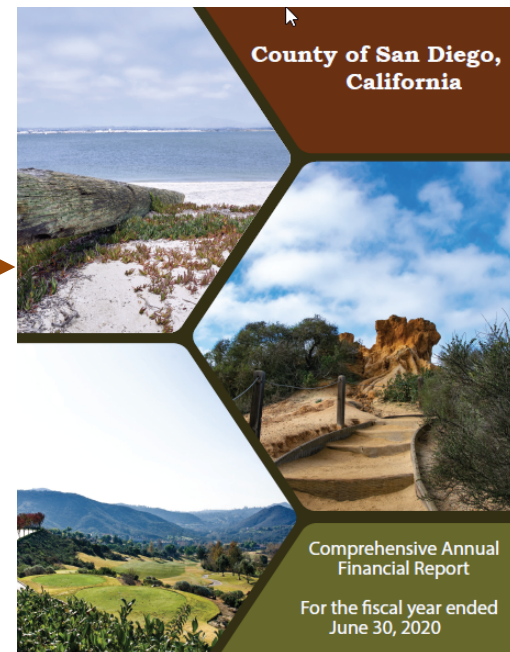
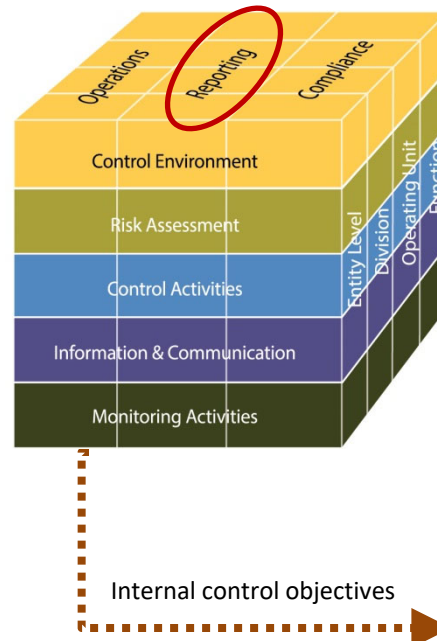


## {5} Statistical Data

Business Areas	28
Flow Charts	336 Processes (total of 448 pages)
	222 out of the 336 involve departments
	100 out of the 336 involve external agencies/entity
	14 out of the 336 involve internal Auditor Core Team
	1,381 key controls are referenced throughout the flow charts (some controls are in multiple flow charts)
Matrix	1,092 controls
Key vs Non-Key	733 are <i>key</i> controls and 359 are <i>non-key</i>
Types of control:	588 out of 1,092 are preventive
	504 out of 1,092 are detective
Control objectives:	176 out of 1,092 are related to the segregation of duties
	173 out of 1,092 are related to safeguarding county assets
	272 out of 1,092 are related to authorizing transactions
	680 out of 1,092 are related to the accuracy and completeness of transactions

## {6} Summary

- FRAC is the County's Annual *Integrated* internal control project that addresses the COSO Internal Control Financial Reporting objective.
- It is a **requirement** in the preparation of the Financial Statements.
- It is part of the CAFR audit.
- A Three-Phase Model is used to manage the project (Risk Assessment, Audit Review & Risk Control)
- 28 business areas are documented and audited annually. (Matrix, Process Flows, PAD)





# Questions?

