

Leveraging Your ERP System to Enhance Internal Controls

Public Sector Entities

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Even in today's environment of limited resources, strong internal controls and rigorous segregation of duties rules are indispensable tools for public sector entities. Integrating and automating these controls within your financial management or enterprise resource planning system can help mitigate the risk of fraud and mismanagement.



Mitigating the Risk of Fraud and Mismanagement

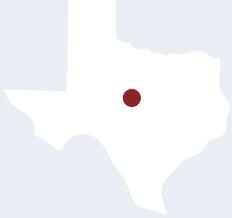
Integrating and automating strong internal controls and rigorous segregation of duties (SOD) rule within your enterprise resource planning (ERP) system can help mitigate the risk of mismanagement and fraud.

While the risk of wrongdoing can never be completely eliminated, an entity's vulnerability can be significantly reduced by implementing strong internal controls, along with rigorous rules to enforce SOD.

When fraud or mismanagement is uncovered in a public sector entity, the reputation damage can be nearly as harmful as the monetary losses. Citizens' and elected officials' faith in the entity can be shaken by stories of malfeasance.

Lohn, Texas

In June 2014, a local school district employee pleaded guilty to stealing more than \$500,000 in funds. According to the IRS, the employee was given signed blank checks to cover expenses, but diverted the funds to her own use and covered the activity by recording false check amounts in the check register.¹



St. Tammany Parish, Louisiana

In October 2013, the former St. Tammany Parish coroner pleaded guilty to conspiring to steal government funds from the Coroner's Office. According to the IRS, the man was involved in fraudulent payments for unused annual and sick leave, the improper conversion of parish funds for his personal use, and fraudulent use of the Coroner's Office credit card.²



Dixon, Illinois

In February of 2013, the town's long-time bookkeeper was sentenced after pleading guilty to stealing \$53 million from town coffers in an embezzlement scheme that lasted for more than two decades, according to a published report. The woman admitted to stealing town money to pay for vacations, properties, cars, and a horse-breeding business.³





Implementing Strong Internal Controls

Internal controls are an integral component of an entity's management. They help:

- Prevent errors
- Prevent fraud
- Provide reasonable assurance that accurate financial and management data is being reported
- Serve as the first line of defense in safeguarding cash and other assets
- Allow government managers to deliver services more effectively, maintain accountability, and comply with applicable laws and regulations

Implementing the following types of internal controls can help a public sector entity reduce its risk of mismanagement or fraud. Each of these controls can be implemented manually or automated with an ERP system.

Reviews and Approvals

Secondary reviews and supervisory approvals help ensure that transactions have been properly authorized, accurately recorded, and correctly reflect the events that have actually occurred. For example, requiring approvals for setting up a new vendor or opening a new bank account helps prevent payment to fraudulent vendors and/or misappropriation of assets for personal use.

Matching Techniques

The use of two- and three-way matching techniques, such as comparing the vendor invoice to the purchasing and/or receiving documents and reconciling key data elements, can prevent payment for goods and services that have not actually been received. Additionally, matching vendor invoice data to the underlying vendor record prior to disbursement can prevent payment to unauthorized or nonexistent vendors.

Segregation of Duties

Dividing principal duties and responsibilities among different people reduces the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing transactions, reviewing and reconciling the information, and handling any related assets. Even in a small organization, management can segregate duties so that no one individual controls all significant aspects of a transaction or event.

Automating and Enforcing Internal Controls in Your ERP System

ERP solutions can help a public sector entity enhance its system of internal controls and mitigate the risk of fraud. Every public sector entity, regardless of size or function, must conduct a variety of common transactions – including collecting and allocating revenue, procuring goods and services, hiring and compensating employees, and paying vendors. These transactions must be effectively executed, accurately recorded, and reported in financial statements. Automating reviews and approvals as well as transaction matching within an ERP system can help streamline and enforce the proper level of review over financial transactions.

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Automating Reviews and Approvals

With ERP solutions such as Microsoft Dynamics® AX, public sector entities can automate the approval workflow process for many financial transactions, including purchases, receipts, vendor payments, payroll transactions, bank reconciliations, and general journal transactions – to name a few.

Rather than layering on supervisor reviews and approvals as separate steps



within the process, Microsoft Dynamics AX integrates and automates these functions. With the workflow functionality, users can provide comments at each step, supervisors can view the status of outstanding transactions, alerts can be put in place if a transaction remains at a given step longer than expected, and an audit trail of all actions is maintained.

Automating Transaction Matching

Additionally, Microsoft Dynamics AX incorporates standard two- and three-way transaction matching techniques as part of the transaction processing cycle which helps to prevent the posting of unmatched transactions.

Crowe has developed a set of more than 1,000 pre-built SOD rules integrated directly into the Microsoft Dynamics AX SOD framework that can be tailored to each entity's business needs.

Supplying the Missing Element – Effective and Automated SOD Rules

With decades of experience in ERP system implementations and governmental accounting, Crowe Horwath LLP has developed a set of more than 1,000 pre-built SOD rules integrated directly into the Microsoft Dynamics AX SOD framework that can be tailored to each entity's business needs. This solution provides a way to define and proactively enforce SOD rules based on user agreement to a role and its associated duties, privileges, and permissions.

Public sector entities can leverage SOD rules in Microsoft Dynamics AX to streamline user setup and identify conflicts in duties that could potentially result in a breakdown in internal controls.

SOD rules span numerous business areas, including:



Microsoft Dynamics AX provides a framework for automating and managing SOD rules, and Crowe has developed more than 1,000 pre-built rules that can be tailored to each entity's business needs.



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¹ <http://www.irs.gov/uac/Examples-of-General-Fraud-Investigations-Fiscal-Year-2014>.

² Ibid.

³ Don Babwin, "Rita Crundwell Sentencing: Nearly 20 Years for Ex-Comptroller Who Stole \$53 Million From Town," The Huffington Post, Feb. 14, 2013, http://www.huffingtonpost.com/2013/02/14/rita-crundwell-sentencing_0_n_2685121.html

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