

# Internal Controls

## Why Internal Controls?

Internal controls...internal controls... why are auditors always asking us about our internal controls!? You as a manager at TDOT have an awesome responsibility - you have to manage your projects, manage your people, answer all your boss's questions, and then on top of all that... answer questions from the auditor! You may ask - WHY? Why do auditors knock on my door? Why do they always want to know about my internal controls? What are internal controls anyway!?

Although the terminology "Internal Controls" sounds like something only an accountant or auditor cares about, they are really just some simple basic principles that are available to help you, the manager, do your job better. Internal controls are a good thing!

You want good Internal Controls so that:

- You, the manager, can sleep peacefully at night!
- You will know all your paper work is in order and everything is properly approved!
- You have a better chance that the pieces of TDOT property you are responsible don't get lost or stolen.
- You know that purchases made in your unit are for things you know are needed, that you have approved, and that your unit actually received!
- The contractors get paid the right amount.
- You know you will be in compliance with all your state and federal regulations
- You will know that your unit's activities have been properly recorded in the Department's accounting records.

## Just what are Internal Controls anyway?

Simply speaking, internal controls are ways that you do your job in order to give you that peace of mind that everything is being done correctly. When we think of internal controls there are basically 5 things to think of:

**Environment** - What is the environment that you work in? Does your work world operate in a way where there is a good "tone at the top"? What is the ethical climate where you work? Remember - actions speak louder than words! Do people know how to do their job? Do you have written policies and procedures in your area to help them to do so? How is your area organized? Is it organized in a way that allows things to run smoothly and operate in the best manner? Do people care about what they are doing and try to do their job well?

**Risk** - What are the risks that something will go wrong in your work area? What is the risk that the road might not be built according to specs? What is the risk that you maybe didn't pay that contractor the correct amount? What are you doing to try to reduce the important risks in your area and be sure your project gets completed the way it's supposed to?

**Activities** - This is the good stuff! It's things like getting approval before purchasing those cleaning supplies... segregating duties so that one person doesn't do everything...making sure that someone reviews those bridge plans before they are sent to the contractor (and signs off that he did so!)... and making sure you know where your equipment is all the time and who is responsible for what.

**Systems** - What kind of systems do you use to do your job? Do you have certain computer systems you use in your job? Do they work well? Do they process information correctly for you? How about other types of systems? Do you have a system or process to get items out of the storeroom? Does this system work well for you so you're able to keep up with everything that goes in and out of the storeroom?

**Monitoring** - What do you do to make sure that everyone is doing their job well and that all these controls are working properly? You can have the best internal control system in the world but if you never check to see that it's operating right chances are that it isn't.

Here's another way to look at it... Do you think you have your own "personal internal control system"? If you don't, then consider the following:

**When you came to work today, did you lock the doors to your house?** If you did, that's your own "internal control" to safeguard the assets you own. Congratulations, you are an internal control user.

**Do you keep the PIN number for your ATM card in a safe place? (i.e. away from the card itself.)** If you do, that's an internal control the bank recommends to protect your funds from being stolen.

**Do you balance your bank statements each month? (You really should you know!)** If you do, then you are ensuring the accuracy of the transactions entered on the account statement. Once again you are performing your own personal internal control.

At TDOT, internal controls serve the same purpose:

- **Protect the Department's Assets**
- **Ensure Records Are Accurate**
- **Promote Operational Efficiency**
- **Encourage Adherence to Policies**

## **Who cares about Internal Controls? ... You do!**

If you don't remember anything else you've read so far, please remember this. Internal controls belong to you the manager - they are there to help you! You have internal controls to help ensure that fraud doesn't happen in your unit. They are not just an "auditor thing". We in Internal Audit are merely here to help you set up your operations in a way that will help you have the confidence that everything is going the way you want it to! Internal controls are things to help you do your job! They aren't something in addition to what you already do but rather should be a part of how you do your job!