Internal Controls Essential to Managing Municipal Risk

by Bryan J. Anderson, Finance Director

INTERNAL CONTROLS ARE powerful techniques that can avoid losses from mismanagement, theft, and crime.

The American Institute of Certified Public Accountants defines internal control as "a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations."

Benefits of Internal Controls
Strong internal controls provide a host of benefits. They:

> Protect the organization's resources from mismanagement or fraud
> Ensure compliance with applicable laws and regulations
> Develop consistent financial and managerial data with which to make better business decisions
> Prevent errors and irregularities, ensuring accurate and reliable accounting records that strengthen the integrity of the organization and financial reporting process.

There are three primary types of internal control systems: preventive, detective, and corrective. Preventive internal controls are the most effective, since they are designed to identify and eliminate errors, irregularities, and misappropriations before they occur.

An effective internal control system includes the following five interrelated components:
1. Control environment
2. Assessment of risk
3. Control activities
4. Information and communication
5. Monitoring.

The most common internal control activities include authorizations, reconciliations, record retention, supervision/monitoring, physical safeguards/security of assets, information technology access, review of employee performance, and separation of duties.

A Shared Responsibility
While some consider internal controls to be a function of the finance or accounting department, in fact, a strong internal control environment is the responsibility of employees throughout an organization.

We recommend that municipalities develop comprehensive policies, procedures, and forms that describe and document strong internal controls.

It is also paramount that policies and procedures be enforced. Unless they are performed properly and in a timely, routine manner, they will be ineffective.

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Ace Media Interviews

In the opening session, Anthony Huey offered an array of tools, condensing a day-long discourse on news interview skills into a single hour. In his dynamic, confident talk, Huey gave pointers on how to address reporters’ questions, including keeping responses to 10 seconds and ending on a positive note.

Huey’s five tips for acing media interviews are:

**Conviction.** Believe in what you’re saying and have good energy and enthusiasm.

**Control.** Have an agenda. Then you, not the reporter, can control the interview by responding in such a way that allows you to promote your agenda.

**Specific.** Get to your point quickly and without summarizing.

**Examples.** Use anecdotes to make yourself relatable. Use lead-ins like “for example” and “such as” to drive the discussion and make your desired points.

**Accurate.** If you make a mistake, apologize and correct yourself.

Finally, Huey provided four response techniques that he said are applicable to answering any questions in life, not just those from reporters. One such technique is “turning the tables,” in which an interview subject poses a rhetorical question and then answers it, thereby turning the tables and taking control of the conversation.

To illustrate this method, he gave this example. An interviewee might say: “The other day, one of our citizens asked me, ‘What are you going to do about the budget?’ Here’s what I told her…”

Throughout the hour, Huey punctuated his discussion with video clips illustrating how to apply his principles effectively—and how not to. It was truly impressive how much content he was able to pack into the hour he spent with the group.

Hold Orderly Meetings

Ann Macfarlane is passionate about leadership and board management. She brought her spirited presentation style to MMRMA’s Risk Management Workshop, simultaneously entertaining and educating attendees on how to ensure their meetings run optimally.

In her general session, Macfarlane stressed that the role of the presider is paradoxical: he or she is both the most and least important person in the room. On the one hand, the presider must be strict on process—a benevolent dictator. On the other hand, the group is the final authority, so the presider must be fair and “get out of the group’s way” as it reaches decisions.

She went on to discuss points culled from Robert’s Rules of Order, including the flow of authority, guidelines for discussion and debate, and elements such as points of order, requests for information, and appeals.

Macfarlane’s breakout session was even more playful. She incorporated the props that make her company, Jurassic Parliament, unique—a series of toy dinosaurs that represent various motions and points of order. She also assigned random attendees to various roles with corresponding scripts and background information. The session culminated in a mock meeting, providing a real-time demonstration of the principles she had shared.

Featured speakers accented state and national trends and topics. Michigan Lieutenant Governor Brian Calley discussed cooperative services among municipal entities, while Jack Uldrich provided mind-boggling insight into how exponential technological growth is changing our world in ways we might not fully realize.

Presentations by Anthony Huey (above) and Ann Macfarlane (below) can be downloaded by registered users at mmrma.org.

Contact Tamara Christie at MMRMA for website assistance.
criminal trial, which was denied by the trial court. The officers were convicted and appealed their convictions all the way to the United States Supreme Court. The Supreme Court confronted the issue of whether New Jersey could require a public employee to either testify against himself in a criminal proceeding or face the consequence of being fired. The Court held that when public employees are given the choice “to [either] forfeit their jobs or to incriminate themselves,” their statements are coerced and cannot be used against the employee in a criminal proceeding.

A Balancing Act
The effect of the Garrity decision is that the public employer’s right to discover information about the actions of its employees is balanced with the public employee’s right against self-incrimination under the Fifth Amendment. The employee can validly be compelled to make a statement to the employer, but the statement cannot be used in future criminal proceedings.

Employees assert their Garrity rights just as they would the Fifth Amendment right against self-incrimination.

How Does Garrity Work?
Generally, a Garrity situation arises in the following way. A public employer approaches an employee and asks questions, indicating that a failure to answer will result in some disciplinary action. This is known as compulsion. The employee will then assert his or her Fifth Amendment right against self-incrimination. This is known as “invoking the Garrity right.”

Disciplinary Action May Lawfully Be Taken
If these warnings are given to the employee, the employee is required to fully answer questions relating to the performance of the employee’s job. If the employee refuses, there is no constitutional bar to disciplinary action, including dismissal, based on a refusal to answer.

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In some circumstances, especially when the employee is suspected of a serious crime, a public employer may be interested in pursuing both an internal investigation to determine whether discipline is warranted and a criminal investigation to determine whether criminal charges are appropriate. This can be done, but the employer should exercise caution to ensure that these investigations proceed on separate, parallel courses.

Separate Internal and Criminal Investigations
Whenever possible, the two investigations should be conducted by separate agencies or, at the very least, different investigators. The investigator involved in taking a Garrity statement from an employee should not share information obtained from that statement with anyone involved in the criminal investigation.

What Does Garrity Mean for Management?
Garrity does not affect management’s ability to inquire as to criminal activity that impacts the public entity’s business. Management can, and should, inquire into any suspected criminal activity on the part of its employees. The effect of Garrity is that the answers received from an employee in a compelled statement cannot be used against that employee in a future criminal proceeding.

Keep in mind that Garrity statements:
> Can be used in disciplinary proceedings or in civil cases against the person providing the statement.
> Are only excluded in future criminal proceedings against the employee who gave the statement. If criminal actions by other employees are described in the statement, it can be used in a prosecution against them.

Garrity rights are most commonly associated with the law enforcement profession. However, many employers do not realize that the Supreme Court in Garrity explicitly extended its holding to all public employees, not just police officers.

Regular updating ensures that internal controls remain relevant and effective. Those who fail to understand the importance of internal controls often view this process as cumbersome and time consuming, when in fact, the opposite can be true.

Developing and/or evaluating an internal control system provides an excellent opportunity for identifying process improvements. Internal controls can serve as a catalyst to improve an organization’s activities, especially in the areas of effectiveness and efficiency.

Once you have established internal controls, your organization should continually evaluate and update them to accommodate changes in information technology systems, staffing levels, risks, processes, and business objectives. Procedures designed to assess the quality of internal control performance over time should be built into normal recurring activities.

Without ongoing assessment and updating, internal controls could become ineffective and therefore viewed as unnecessary or unimportant by some team members.

Strong internal controls are vital to every organization to ensure sustainability and to achieve the highest financial, corporate governance, and risk management standards.