

Internal Controls for Project Management – Keeping Quality in Your Project



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Collier County

Welcome Everyone!

Nancy Zikmanis, CHMM, PMP

- Originally for Cleveland Ohio – **Go Browns!**
- Regulator and Project Manager at Ohio EPA for over 20 years
- Certified Hazardous Materials Manager
- Certified Public Administrator
- Project Management Professional
- 2015 moved to Naples, Florida as the Collier County Environmental Compliance Manager
- 2017 became an Internal Controls Manager and helped to build our program from ground up across the county.



What does our Internal Control Program Do ?

- Educate county staff on internal controls, industry best practices, and relevant county policies
- Manages fraud hotline and conducts internal investigations
- Implement and manage the internal control program and software across the county (*Goal-oriented*)
- Identify process improvements and best practices throughout the County (*Standardization*)
- Monitor and update the internal control systems for assigned divisions. (*Quality Control*)

What is a COSO Internal Control?

Per the Federal GreenBook (*the government framework based upon COSO Framework*), an **internal control** is “a process used by management to help an entity achieve its objectives.”

“**How does internal control work?** Internal control helps an entity run its **operations** (*projects*) efficiently and effectively **report** reliable information about its operations (*projects*) in **compliance** with applicable laws and regulations.”

CATEGORIES of an INTERNAL CONTROL FRAMEWORK

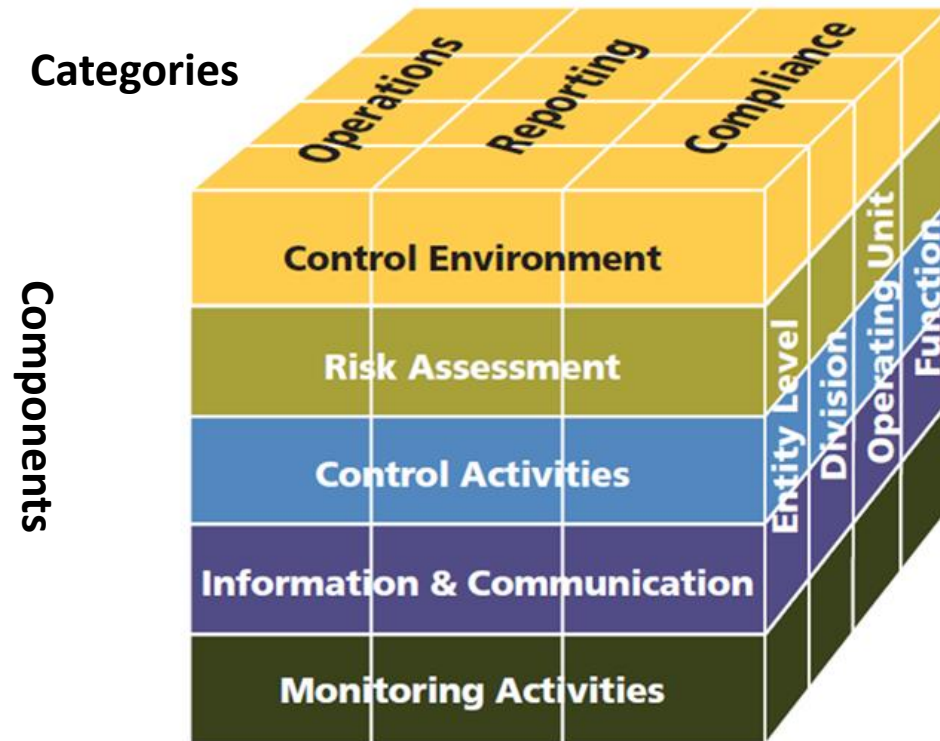


Where Internal
Controls Come From –

Committee of
Sponsoring
Organizations
(COSO)

- **Most recognized and authoritative Internal Control Framework - 2013**
- Committee of Sponsoring Organizations (COSO) is comprised of:
 - AICPA - American Institute of CPA's
 - IIA – Institute of Internal Auditors
 - AAA - American Accounting Association
 - FEI – Financial Executives International
 - IMA – Association of Accountants and Financial Professionals
 - ACFE – Association of Certified Fraud Examiners
- **Aligned with the Federal Government's United States Code 3512 c and d Title 31.**
- **Enterprise Risk Management Update - 2017**

COSO Integrated Framework Cube



Categories = SCOPE

- Operations – Effectiveness and efficiency of operations
- Reporting – Reliability of reporting (Internal and External)
- Compliance – Adherence with applicable laws and regulations



Internal Control Versus Internal Audit

- **Your Internal Control System -**
 - Continuous measures and monitoring as the process or project occurs
 - Segregation of duties of the internal team to check and verify process occurs in a quality way
 - Spot checks and monitoring as tasks occur; not checking everything.
- **Internal Audit**
 - Checking work after completed
 - Verify every single component of the work product
 - Usually done by single audit or external audit team.

Florida Legislation for Internal Controls

The 2020 Florida Statutes

[Title XIV](#)
TAXATION AND
FINANCE

[Chapter 215](#)
FINANCIAL MATTERS: GENERAL
PROVISIONS

[View Entire
Chapter](#)

215.86 Management systems and controls.—Each state agency and the judicial branch as defined in s. [216.011](#) shall establish and maintain management systems and internal controls designed to:

- (1) Prevent and detect fraud, waste, and abuse as defined in s. [11.45\(1\)](#).
- (2) Promote and encourage compliance with applicable laws, rules, contracts, and grant agreements.
- (3) Support economical and efficient operations.
- (4) Ensure reliability of financial records and reports.
- (5) Safeguard assets.

History.—s. 55, ch. 2001-266; s. 9, ch. 2019-15.



[Division of Accounting
and Auditing](#)



PART FIVE - Internal Controls

[Activities Allowed or Unallowed](#) | [Cash Management](#) | [Eligibility](#) | [Equipment and Real Property Management](#) | [Matching](#) | [Period of Availability of State Funds](#) | [Reporting](#) | [Subrecipient Monitoring](#)

Section 215.97(10), Florida Statutes, The Florida Single Audit Act, requires auditors conducting a state single audit of recipients or subrecipients to obtain an understanding of internal controls, assess control risk and, unless the controls are deemed to be ineffective, perform tests of controls. Additionally, auditors are to determine whether the nonstate entity has internal controls in place to provide reasonable assurance of compliance with the provisions of laws, regulations, and other rules, pertaining to state awards that have a material effect on each major state project.

Part Five is intended to assist auditors in complying with these requirements by describing for each type of compliance requirement, the objectives of internal control and certain characteristics of internal control that when present and operating effectively may ensure compliance with project requirements. However, the categorizations reflected in Part Five might not necessarily reflect how an entity considers and implements internal control. Also, this part is not a checklist of required internal control characteristics. Nonstate entities could have adequate internal control even though some or all of the characteristics included in Part Five are not present. Further, nonstate entities could have other appropriate internal controls operating effectively that have not been included in Part Five. Nonstate entities and their auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with state project requirements.



Objectives of Internal Control

- Promote orderly, economical, efficient and effective operations, which produce quality services consistent with the organization's mission.
- Promote compliance with applicable laws and regulations as well as Management and Board directives.
- Develop and maintain reliable financial and non-financial reporting data for both internal and external uses.
- Safeguard resources against loss and fraud.

“If you can’t describe
what you are doing as a
process, you don’t know
what you are doing.”

Dr. W. Edwards Deming



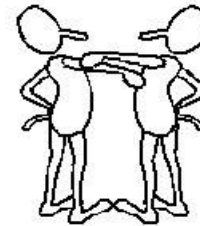
Project Reality

Project management is an iterative process;

Projects evolve, start, stop, and budget, scope, and time can all be fluid.

The internal control process helps to address risks and monitor your Objectives (Goals).

Six Phases of a Project



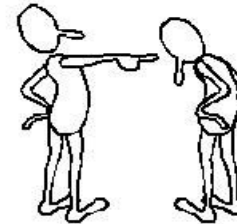
1. Enthusiasm



2. Disillusionment



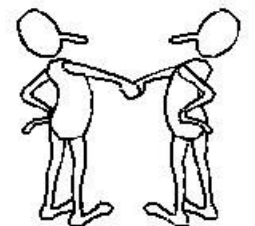
3. Panic



4. Search for Guilty



5. Punishment of the Innocent



6. Praise and Honor for the Non-Participant

Who is Responsible for Internal Controls?

Management or Leadership is responsible for establishing and maintaining the control environment, culture, and roles and responsibilities for the entity, unit, or team.

However, **every employee** is involved in either strengthening or weakening the internal control system and final product quality. Therefore, all employees should be aware of the goals of the process/project and purpose of internal controls.

It also helps **auditors** perform evaluations and limit continued Findings for improvements. **A Gold Star is best.**



GOOD
JOB!

COSO Integrated Framework: Components

Control Environment

- Provides the discipline and structure to help an entity achieve its objectives

Risk Assessment

- Assess internal and external risks and develop appropriate risk responses

Control Activities

- These are the actions management establishes through policies and procedures to achieve objectives and respond to risk

Information and Communication

- Management and personnel communicate quality information to support the internal control system

Monitoring

- Assess the quality of performance and promptly resolve findings

Control Environment

Ethics and ethical culture

Training, Licensure or Certifications needed to complete the job

Proper hiring, contracting, and security of the job

Outlining the team organization, responsibilities, and processes

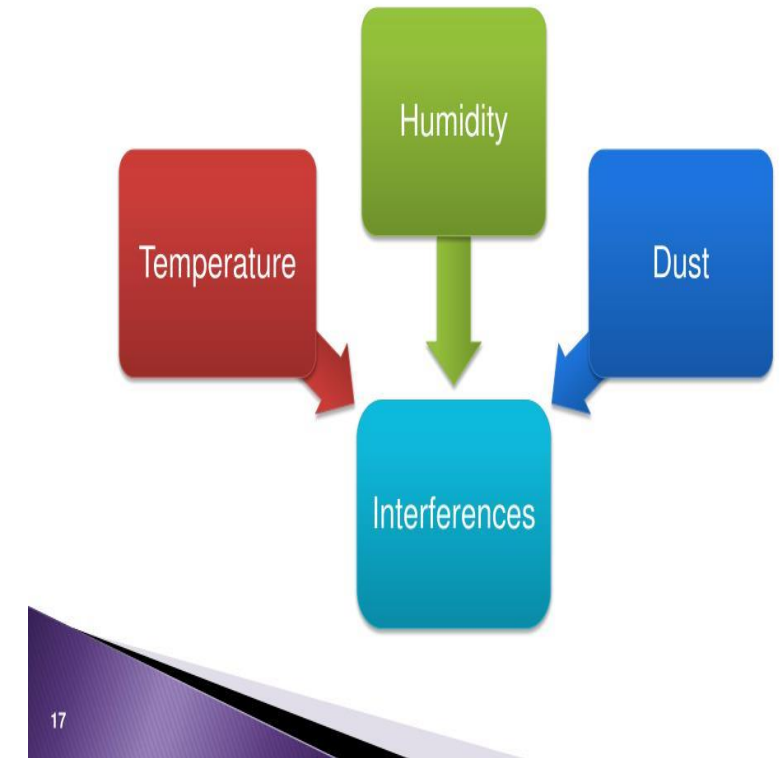
Defining the lines of command and Tone from the top



What type of internal controls equal Control Environment?

- Ethics Policies and Communication – Develop a Culture
- Define roles and responsibilities for each member
- Identify Reporting Lines
- Identify needed talents, certifications, experience
- Define hiring and contract requirements for staffing
- Define Performance Evaluation Processes
- **Monitor that all are in place and working**

Environmental Control



Internal Controls for Your Environment

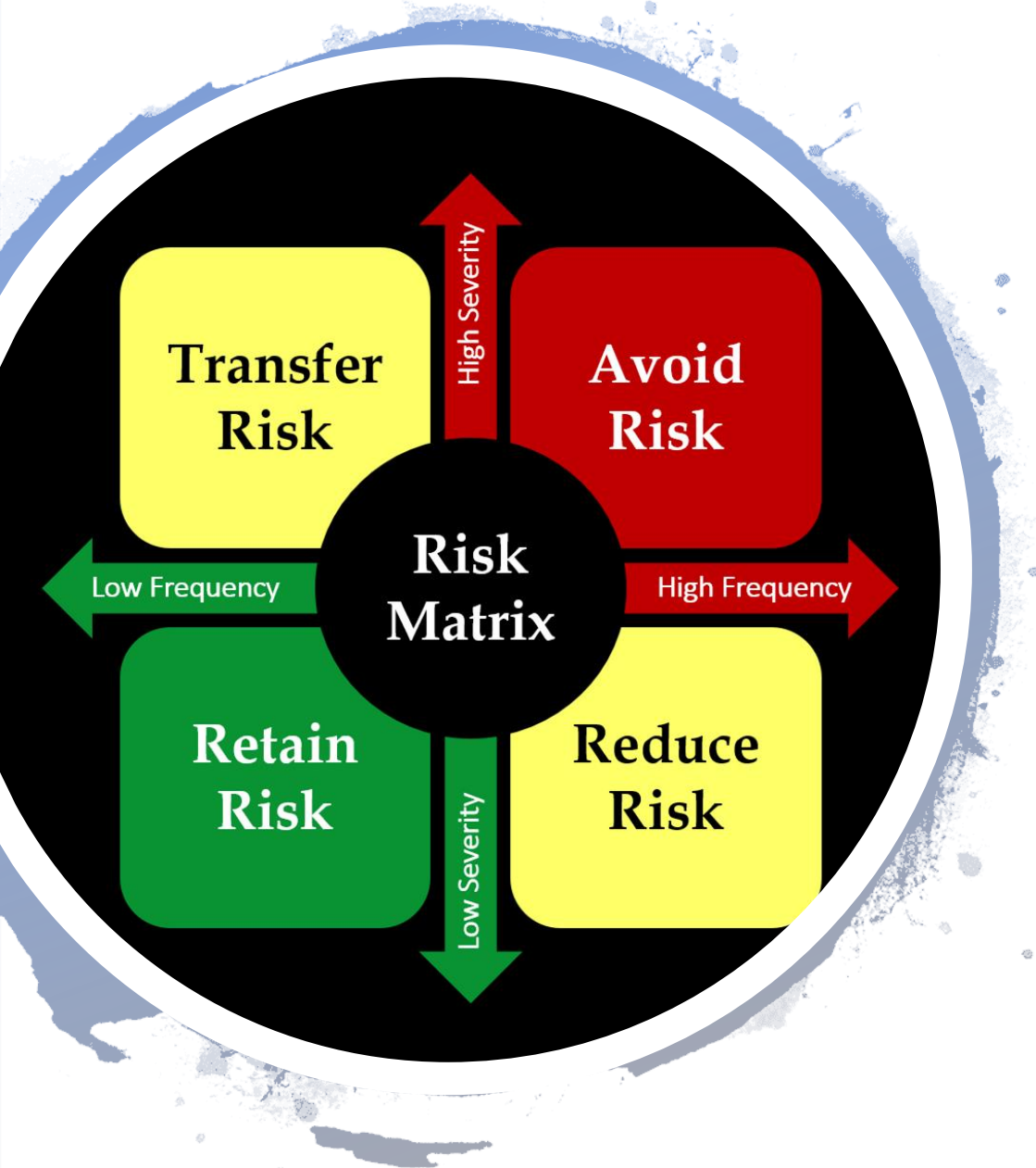
Risks

- Ethic Culture
- Undefined Roles and Responsibilities
- No Command Structure
- Lack of hiring controls

Controls

- Ethic policies and annual review/sign off
- Position descriptions, organization charts, workflow charts and Key Metrics for performance
- Line of command and authority designations
- Hiring Protocols and Process (nepotism)

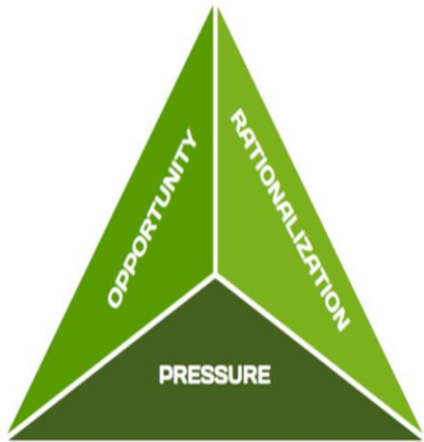
Risk Assessment



- What are the risks to your project ?
 - Time
 - Scope
 - Budget
- Other Risks
 - Training
 - Staffing level
 - Supply Chains
 - Fraud
 - Security/Confidentiality,
 - Change Management

Fraud is an intentional misrepresentation of the facts, resulting in the object of the fraud receiving a material injury (financial) by acting upon the misrepresented facts.

The Fraud Triangle



Fraud

Organizations must remove one of the three elements in the fraud triangle – *Opportunity, Pressure, and Rationalization*

Removal of opportunity directly affects the System of Internal Controls – Defined Expectations and Monitoring

Pressure - Reasonable Expectations – The project must have contingencies built in.

Rationalization – Ethics – Don't expect good quality if your leadership does promote quality.

Example of Risks without Internal Controls



"Poor planning."



© Pleated Jeans

Poor Training or communication



Lack of proper equipment

Examples of project risks and controls:

Risk

- **Project status off track – Time, Budget, Scope**
- **Poor inventory status, storage, or material quality**
- **Poor project QA and change management**

Control

- Standardized progress checks and reporting; Project mapping and workflows; Periodic audits/inspections
- Invoice and inventory reconciliation; Audit material inventory or switch to JIT material delivery; Security measures and audits; required submittal of material spec sheets with deliveries/use; inspection of inventory and storage areas (housekeeping).
- Segregation of duties to reduce fraud; Specifications and work/task audits; Required change management/order documentation with authorization; Designated authority lines; Spot check key metrics of project.

Control Example

Description

- **What:** Confirm Centers complete appropriate site inspections and Maintenance periodically.
- **Why:** Ensure compliance with Facilities standards, OSHA, Entity safety policies and procedures, and to safeguard entity's assets.

Instructions

- **How:**
- For Documentation, please provide the last 2 weekly facilities inspections and last monthly inspection and maintenance report.
- For Comments, note that all required facility housekeeping, inspections, and maintenance are occurring timely and if there are issues, please discuss and provide supporting documentation of corrective actions planned or taken.



Control Activities

Compliance Monitoring

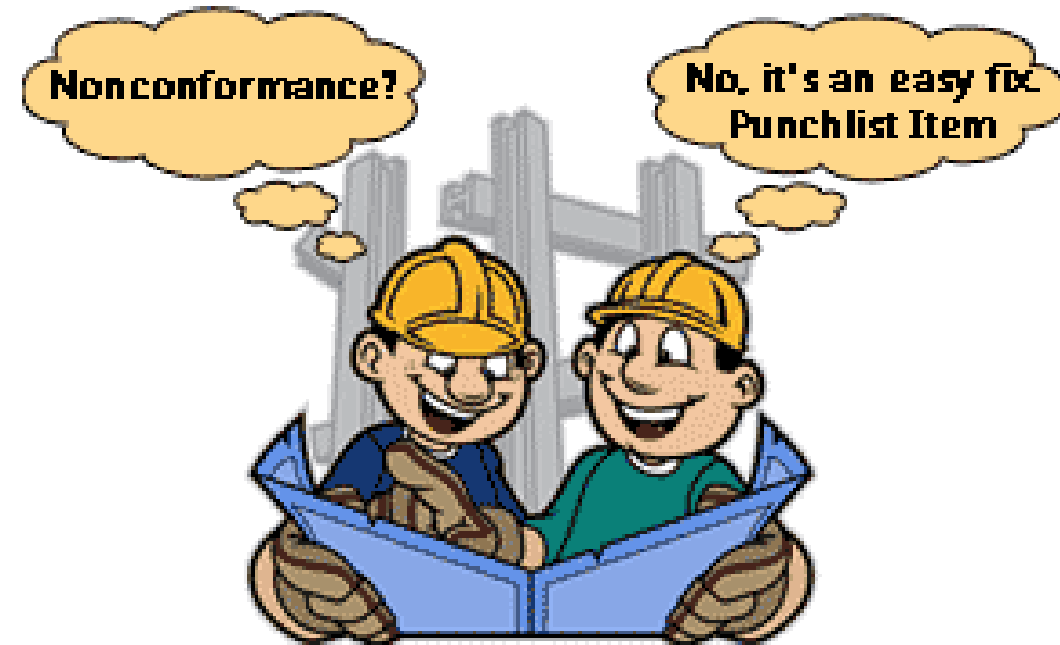
- Develop Policies and Procedures for key tasks to ensure standardization
- Define goals and identify compliance requirements for each task/process
- Define Information exchange to ensure all parties are aware of goals, process requirements, timelines, changes, etc.
- Ensure currency of procedures/policies



Compliance

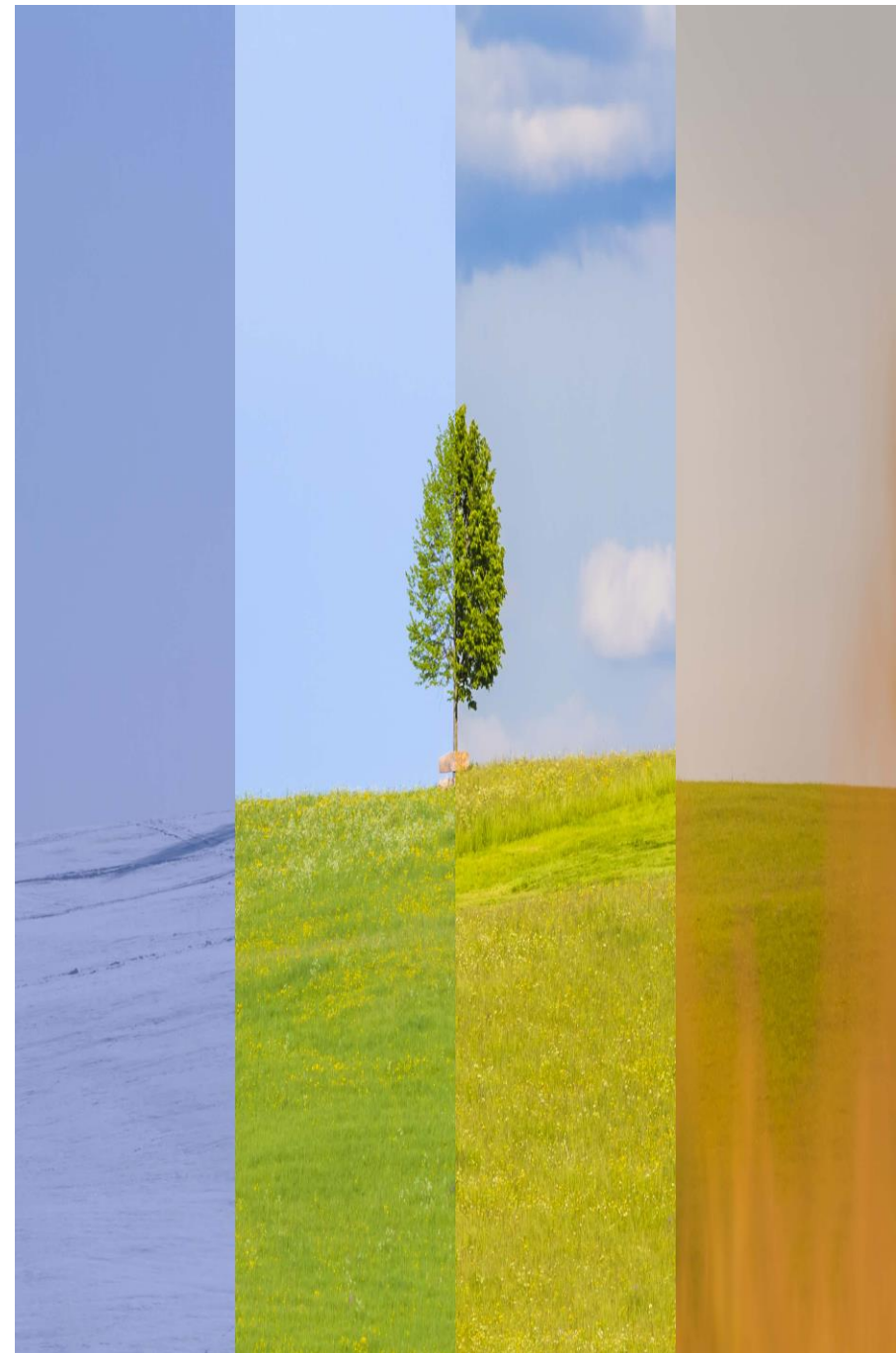
Compliance with.....

- 1) Laws and regulations?
- 2) Internal Policies or Requirements?
- 3) Industries or Contract Standards?
- 4) Who is responsible?
- 5) Who needs to comply?



Continual Changes

- 1) Scope Changes** – client change view, materials not available, adding new aspects.
- 2) Budget Changes** – economic changes, new needs, moving money for other issues, unforeseen circumstances.
- 3) Time Delays** – Weather delays, permitting issues, Changes from above, **PANDEMICS**
- 4) People Changes** – staffing turnover and training; contractors/subcontractor availability; impacts from visitors;



Common Areas for Project Management Controls



- Standardize Project Tracking, Quality, and Change Control
- Define Contract Administration and Oversight Needs
- Reconcile Invoice and Payroll Review for operations
- Audit Inventory, Storage, and Material Quality and Changes
- Keep Project Communication Open – Inside the team and to stakeholders
- Keep Updated on Regulatory Compliance (OSHA, EPA, FCC)
- **Segregation of Duties to ensure checks and balances**

Control Example

Sub Process	What are we trying to achieve and why?	Instruction (How do you validate the work being completed?)
Currency of Practices and Procedures	What: Verify operational practices and procedures are reviewed and updated periodically and communicated to staff in a timely manner to mitigate any impacts to operations. Why: Ensure continuity of operations, comply with operational and regulatory requirements, provide consistent training and timely communication to staff.	How: 1) Verify and attest that current SOPs are reviewed on a three cycle where 33% are reviewed each year and attach a screenshot of SharePoint or SOP folder showing the list of SOPs with filenames denoting last update. 2) Confirm and attest that all revised or new SOPs are communicated to staff within 60 days of finalization and attach notification through training agenda with signature page for new or updated SOPs or email dissemination to staff. 3) If there are no new or updated SOPs in the period, identify this in comment section and attach email to staff that no changes occurred. Evaluate any discrepancies and document remediation, if necessary.

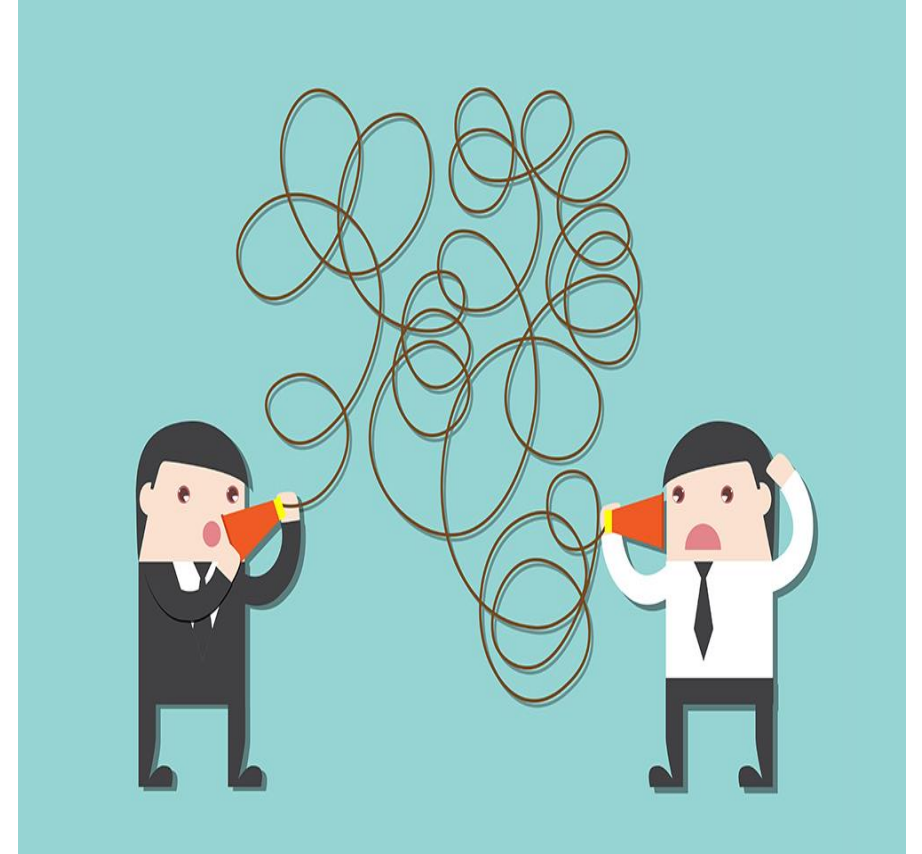
Information and Communication

- Defining the Quality of the information and communication.
- Lines of communication
- Method of communication
- Internal versus External messages and communication lines.



Communication Matter

1. Is the right person getting the message? Leadership, contractor, stakeholders, **Public/Media**
2. Is the right message heard? (**language barrier, complexity**)
3. Internal versus External – Confidential or Internal information – Security protocols
4. Is it being heard in the form presented? Electronic vs in-person; communication style, culture.
5. Quality of information – sources, errors, misinformation, incomplete information; wrong information.



Use Your Communication Plan

Controls for Communication:

1. Develop policy on confidential information; media or public interaction; communication lines – Public Information Officer?
2. Define Who, What, When, How for quality, check sources, audit and inspection reports (unbiased, errors, spelling). Include separate checks of invoices, specifications, and outgoing communication to ensure proper quality
3. Define Communication Methods – Internal versus External; formal or informal; in-person vs remote/electronic; body language, tone, cultural rules.
4. Quality control changes – Lines of approval, required documentation for revisions - budget, scope, time change control, who needs to approve and/or be informed. *What needs to be revised? (Invoicing could change with spec changes).*



Communication Control Example

Description

- **What:** Validate that the Project website content and updates are completed per protocols and that the social media accounts such are monitored for compliance with social media policies, and that access controls for all web-based activities are in place
- **Why:** Ensure proper project message and social media content that is consistent with project mission, compliance with communication policies, entity IT policies and cybersecurity of assets.

Instructions

How:

Please provide the following documentation to confirm web content:

1. Upload a screenshot of webpage for the prior 2 months to document content rotation.
2. Upload a screen shot of each account (Facebook, Twitter and Instagram) to document appropriate content and attach any corrective action if issues noted (note in comment section if no issues).

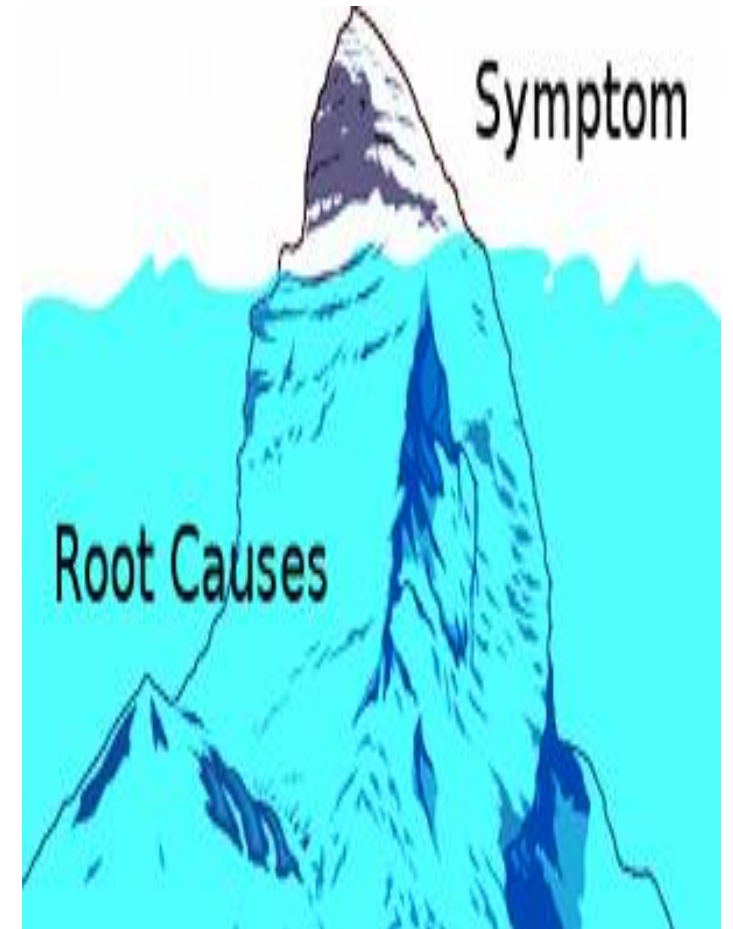
Please provide any comments,

- 1) To verify a quarterly cyber security check of access rights; compliance with website policy and security of cyber systems.
- 2) Verify a timely upload and removal of information on the website per protocols
- 3) Verify an annual check of the social media policy to ensure consistency with all required policies and procedures of our firm
- 4) Discuss any issues and resolution identified in the periodic check

Monitoring Activities

Quality Control Checks

- Define how you **Monitor** your project
- What is needed to ensure you **Identify** the errors and root causes?
- Who is **Responsible**?
- What **Corrective Actions** are needed?



Control Design Example

- **Journeyman Tracking**

What: Verify maintenance employees attend job task required training, as appropriate, and maintain journeyman certifications needed for job duties

Why: To adhere to applicable regulations, county policies and requirements under Position Descriptions for maintenance positions.

How: Verify that appropriate training for maintenance staff positions is occurring and maintained.

Documentation:

1) Upload training and journeyman **tracking spreadsheet** to ensure currency of all trainings and certifications/licenses.

Worklog:

1) **Confirm that staff have completed the required journeyman renewals** for their job duties and additional required training for position (such as MOT or Electrical Safety training)
2) Evaluate any deficiencies and attach corrective action documentation.

Our Internal Control Program

- **Preparer** uploads documentation to address internal control check
- **Reviewer** (Manager/Supervisor) reviews the documentation and comments regarding the control on the process
- **Approver** (Director) reviews both preparer and reviewer information and comments to see if the process is working.
- **INTERNAL CONTROL** uses software to complete the controls and ensure compliance with control objectives as written (design/quality).



Identifying Issues



- Find that Procedures have not been updated for Years – Decades
- No reconciliation of invoice and materials received
- Data errors of information transmitted
- Reporting not getting to the correct stakeholders
- Poor contractors rehired over and over (no vendor performance monitoring)
- Possible – FRAUD and Theft

Corrective Action Plan for Remediation

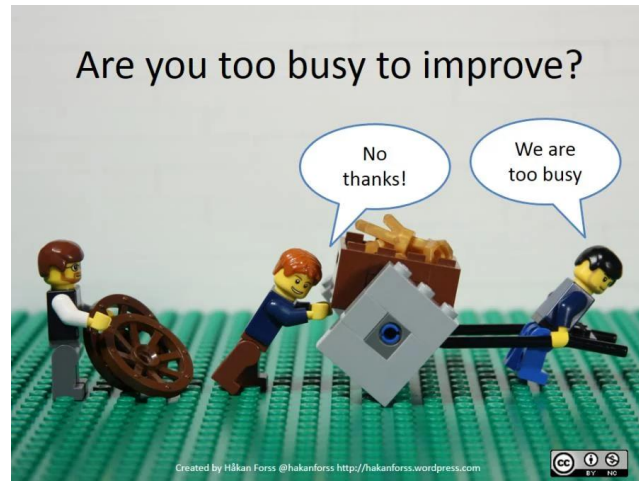
- What needs corrected?
- Time and Cost to Correct?
(Contingency funds or contract amendment?)
- Who is responsible?
- How to correct – steps to be completed and confirmed

Corrective Action Plan

2004
Pharmaceutical Regulatory
and Compliance Congress

Area of Focus	Finding	Recommendation	Management Action Plan Acct/Timeframes
1. Contract load	1. 20% data errors in contract load	Periodically review data entry	Develop a periodic review system
	2. Etc.	Etc.	<u>Accountable Party:</u> John Smith, VP <u>Timeframe:</u> 2 nd Quarter

Process Improvement - Part of Internal Control



- During the internal control engagement, process improvements may also be identified to strengthen processes, and monitoring system.
- **Example** – *During a review of how recycle materials were handled at a project site, it was identified that loads and payments were not reconciled, and some revenue may not be posted to appropriate accounts or at all.*
- **Corrective Action** - *Standardized protocol and chain of custody with invoice reconciliation; ensured documentation defined appropriate account, site locations, and quantity for proper payment and posting revenue.*
- **Spurred Multiple Process Improvements** – *Single check recipient, better reconciliation and documentation, better tracking.*

Our Successes



- **Bridged** divisional gaps and communication
- **Standardized** process and identified areas of improvement
- **Obtain buy-in** for internal control program across the agency
- **Implemented automation** and electronic processes to reduce errors in reporting
- **Ensured tracking** of inventory, reporting, fiscal items, training, and maintenance
- **Ensured** currency of procedures
- **Developed** better documentation in operations
- **Confirmed proper compliance** with regulations, County Ordinances, and policies

In Summary...

- Internal control process = Quality Control

Activities, plans, attitudes, policies, and efforts of the people of the organization/project

- Internal Controls = *Policies, Segregation of Duties, Communication/Document/Report, Compliance, Monitoring of Processes*

- **TRUST BUT VERIFY!**

- Find new innovative process improvements for your projects with all members.



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QUESTIONS?

THANK YOU FOR
YOUR ATTENTION