



# **Part 1: THE INTERNAL CONTROLS ENVIRONMENT**

**IN THE FEDERAL JUDICIARY  
AND THE DISTRICT COURT OF GUAM**

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# Topics of Discussion

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- Why we have internal controls
- Our areas of responsibility
- Our internal controls and audit program
- Tools we use

# Why Internal Controls?

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- Strategic Plan for the Federal Judiciary, approved by the Judicial Conference in September 2010 calls for strengthening of internal control and audit programs
- Protects employees
- Ensures staff act within their authority
- Provides documentation of completion of activities
- Daily finance and budget activities which expose the court to risk



# Areas of Responsibility

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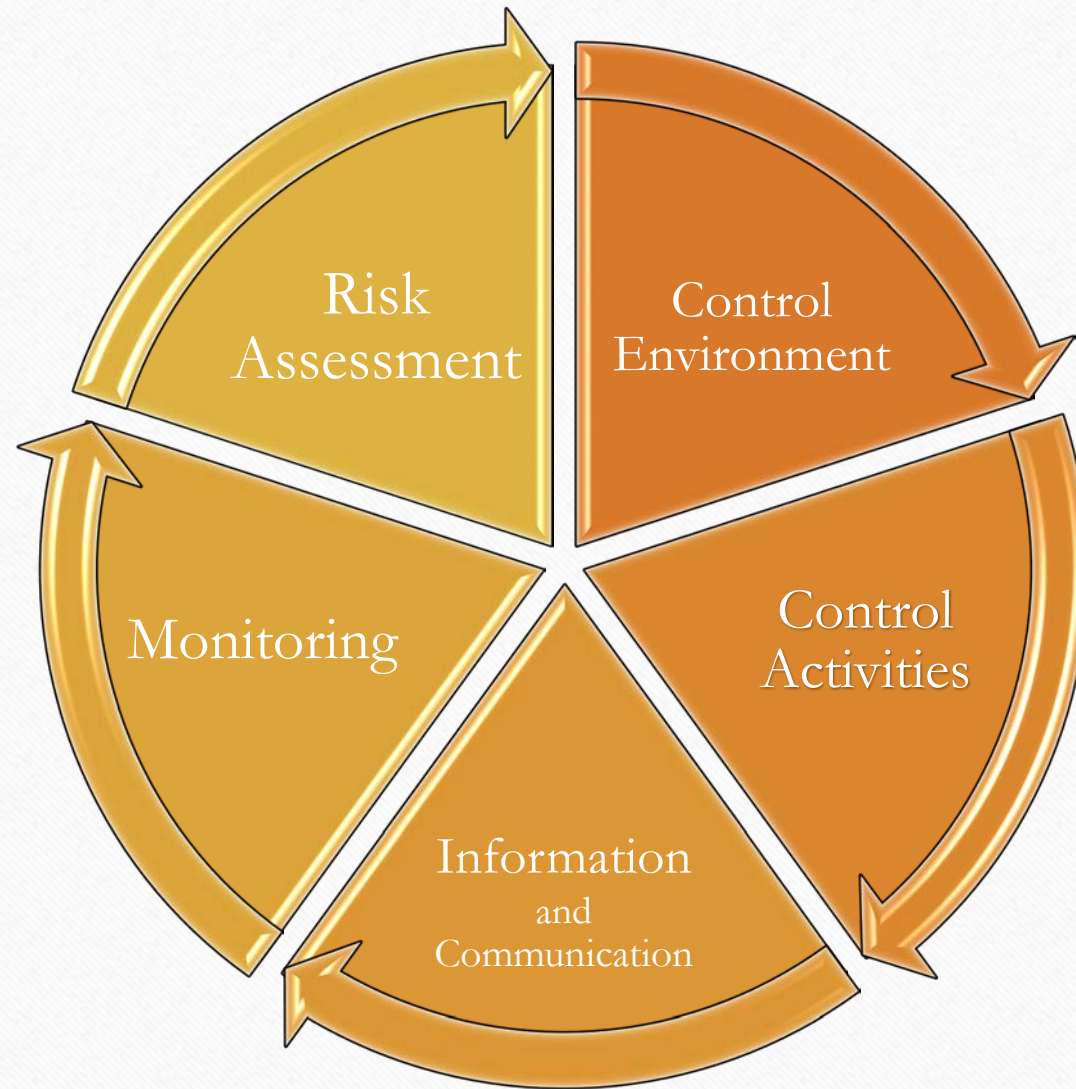
- Financial Management
- Budget and Planning
- Procurement
- Property Management
- Travel Management
- Information Technology

# Internal Controls and Audit Program

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- Provides management reasonable assurance of effectiveness and efficiency of operations
- Ensures judiciary assets are protected from error, fraud, waste, loss, or abuse
- Ensures financial reports are accurate and reliable
- Ensures business practices comply with applicable statutes and policies





# Control Environment

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- Is all about the tone at the top – set by the our Clerk of Court and Chief U.S. Probation Officer
- Expectations about staff involved in internal controls
- Comprehension or clarity about these expectations



# Control Activities

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- The actions we take and activities we conduct to address separation of duties through compensating controls
- Making sure all transactions are completed in accordance with national policy and local policy



# Information and Communication

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- Fostering open dialogue between management and line staff to ensure reliable information is being exchanged
- Policies are always changing and being updated
- Ideal in budget and planning process
  - Are mission requirements being met?

# Monitoring

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- Gauge performance over time to see if controls are working as expected
- Mid to low level monitoring are the separation of duties in the review/approval process
- Highest level monitoring is the Cyclical Audit



# Risk Assessment

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- An ongoing evaluation of the risk in our office and action taken/required to mitigate that risk
- Staffing changes. Updated policies and procedures.
- Annual internal assessments
  - Internal Controls Evaluation tool
  - Self Assessment tool

# Risk Assessment – Annual Internal Assessment

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- What is it?
- Separation of Duties (SoD) Rules
- Compensating controls
- “What If” analysis
- Data mining reports



# **Risk Assessment – Examples of Separation of Duties rules**

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- Approve – Certify: the person that approves payments must not certify payments
- Authorize – Procure: the person who authorizes a purchase must not procure the goods or services
- Certify – Reconcile: the person who certifies payments must not reconcile any bank statements.
- Inventory – Dispose: the person who maintains the official inventory system must not dispose of the property

# **Risk Assessment – Examples of Separation of Duties rules**

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- Jury – Certify: the person who takes the jury attendance must not also certify vouchers for payment includes Jury payment vouchers
- Procure – Certify: the person who procures goods or services must not certify the payment
- Receipt Funds – Deposit: the person who collects and records payments must not prepare the deposit or make the deposit



# Risk Assessment – Examples of Compensating Controls

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- Certify – Reconcile: Bank reconciliation review: each statement reconciliation is reviewed and signed by an additional individual
- Deposit – Post: Oversight of Deposits: the staff member posting the receipts does not prepare the deposit or generate the deposit ticket
- Open Mail – Receipt Funds: Open mail and or receipt funds: The user shall not open the mail on days where he or she receipt funds.
- Treasury Check Stock – Reconcile Treasury Accounts: Dual custody of check stock: there is dual custody of the check stock (i.e., two keys are required to open the safe that contains the check). No single person has access to the check stock.

# Self-Assessment Tool (SA Tool)

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- What is it?
- Higher risk activities



## SA Tool – Higher risk activities

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- Funds, especially large dollar amounts
- Actions affecting compensation and benefits
- Sensitive data or materials
- Mission-critical activities where failure or mistakes could have serious consequences

## SA Tool – Higher risk activities

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- High-value items, especially when easily transportable
- Areas with complex regulations (e.g., open market or sole source contracts)
- Operations with inadequate separation of duties
- The use of compensating controls



## **SA Tool – Higher risk activities**

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- Changes over the last year in policy or local procedures
- Personnel who are new, inexperienced, or untrained
- Known prior problems or audit findings
- Implementation of new systems or technologies

# SA Tool – Areas of Focus

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**QUESTIONS?**

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