

Leveraging Technology and Process to Improve Internal Controls

Presented By:

Tom Mitchell, President & CEO, Bonefish Systems
Clint Pelfrey, AIF, Vice President, Bonefish Systems



1

Introduction



Tom Mitchell

Tom Mitchell is founder and President of Bonefish Systems. Mr. Mitchell has spent 26 years in the financial services sector holding numerous technology and business roles in large banks and insurance companies.



Clint Pelfrey

Clint Pelfrey is Vice President of Financial Controls at Bonefish Systems. For the past 30 years Clint has worked in the financial services industry as an Investment Officer working with many cities, municipalities, and school districts across Ohio. Clint's also served as Chief Compliance Officer where he was responsible for establishing internal financial controls, identifying and mitigating risks and maintaining a disciplined oversight of the firm's compliance procedures.

2



BONEFISH
systems U.S.A.

- Bonefish Systems is an information technology provider of fraud detection, financial solutions and IT consulting and services.
- Bonefish markets to the financial sector, both private and public, promoting easy-to-use hosted software applications and IT consulting.
- Additionally, Bonefish provides managed services to local companies to support everyday business technology needs.

3



Agenda

<h2>01</h2> <hr/> <p>What are Internal Controls & Why do you Need Them?</p>	<h2>02</h2> <hr/> <p>Case Study</p>
<h2>03</h2> <hr/> <p>Internal Control Standards</p>	<h2>04</h2> <hr/> <p>Key Internal Controls</p>

4

What are Internal Controls?

Internal controls are the policies and procedures adopted by the company for ensuring orderly and efficient conduct of its business, including adherence to company's policies, safeguarding of its assets, prevention and detection of frauds and errors.



5

Why are Internal Controls Important:

- Compliance with applicable laws and regulations
- Relevant and reliable financial reporting
- Effective and efficient operations
- Safeguarding of assets
- Provide appropriate checks and balances
- More efficient audits resulting in shorter timelines and fewer demands on staff

6

Lack of Internal Controls Could Create...



7

Lack of Internal Controls Case

Social Engineering/Payroll

Social Engineering: The clever manipulations of the natural human tendency to trust

8

Weak Internal Controls: Fraud Can Happen

- Government was the 2nd highest industry victimized by fraud of the 24 industries reviewed.
- \$100,000 was the median financial loss in government fraud cases reviewed with **1/3 of fraud being contributed to lack of internal controls**
- The most common types of fraud schemes within Government are:
 - Corruption (48%)
 - Billing (18%)
 - Expense Reimbursements and Payroll (17%)

Association of Certified Fraud Examiners

REPORT TO THE NATIONS
ON OCCUPATIONAL FRAUD AND ABUSE

2020 Global Fraud Study

Resource: Association of Certified Fraud Examiners' Report to the Nation and Fraud Detection and Prevention for Accounts Payable – Rockhurst University Continuing Education Center

9

Internal Controls Standards



10

Internal Controls Standards



Control
Environment



Risk
Assesment



Control
Activities



Information &
Communication



Monitoring

11

Control Environment



The control environment is the culture, values, and expectations that organizations put into place

- Standard Setter at the top (Notifying staff and employees what controls are in place)
- Accountability and responsibility
- Hire competent trustworthy staff members
- Follow compliance rules and regulations



12

Control Environment - Continued



Set a positive "tone at the top"

Prevention Letter- Internal

Dear [Organization Name] Staff,

We are pleased to inform you that [Organization Name] has taken additional measures to maintain prevention of fraud in the municipality by purchasing the web-based application(s) powered by Bonefish Systems called the Electronic Vendor Audit System (eVAS) and/or the Electronic Payroll Audit System (ePAS).

Among the many features this software provides to the finance department, from a community perspective it provides awareness and alerts to support the prevention of fraudulent activities related to vendor payments and/or payroll monitoring. The system alerts us to red flags that might be considered fraud. Our goal for the municipality, and eVAS/ePAS, is to catch misspending and further secure funds. Utilizing eVAS/ePAS will benefit everyone in the municipality from the staff to community. This is just one of many controls we have implemented to ensure internal and external confidence in management of public funds.

In addition to the software monitoring fraudulent activities, this is a reminder that every public employee can provide fraud-related tips and complaints to the Ohio Auditor of State's hotline at 1-866-Fraud-OH (1-866-372-8364) or their website www.ohioauditor.gov/fraud.html.

Sincerely,

Prevention Letter-External

Dear [Organization Name] Community,

Thank you for your continued support in [Organization Name]. We are pleased to inform you that [Organization Name] has taken additional measures to maintain prevention of fraud in the municipality by purchasing the web-based application(s) powered by Bonefish Systems called the Electronic Vendor Audit System (eVAS) and/or the Electronic Payroll Audit System (ePAS).

Among the many features this software provides to the finance department, from a community perspective it identifies awareness and alerts to support the prevention of fraudulent activities related to vendor payments and/or payroll monitoring. As a community you deserve to feel safe about the funds that are distributed. The eVAS/ePAS software makes sure no fraudulent behavior is being overlooked. Utilizing eVAS/ePAS will benefit everyone in the municipality from staff to community. This is just one of many controls we have implemented to ensure internal and external confidence in management of public funds.

In addition to the software monitoring fraudulent activities, this is a reminder that every private citizen can provide fraud-related tips and complaints to the Ohio Auditor of State's hotline at 1-866-Fraud-OH (1-866-372-8364) or their website www.ohioauditor.gov/fraud.html.

13

Internal Controls Standards



Control
Environment



Risk
Assesment



Control
Activities



Information &
Communication



Monitoring

14

Risk Assessment

- Identify Risks to operations and performance
- Discuss Controls and risks of fraud
- Develop corrective actions and assign others to each
- Learn about emerging risks
- Continuous monitoring

15

Reduce Risk - Implement Audit Trails

Check Number: 25521 Paid To: WILLIAMS BUILDERS

[Prev](#)
[Back To Analysis](#)
[Next](#)

Vendor Number	Check Issued To	Check Number	Check Amount	Check Date	Check Status	Risk Rating	Resources
001079	WILLIAMS BUILDERS	25521	\$4,000.00	12/2/19	ISSUED	28	Compliance Search

Check Itemized List

PO Number	Invoice Number	Account Code	Description	Amount
10041	216148162	053004590430000000000000300000	Maintenance Building Addition	\$4,000.00

Check Analysis

Analysis Message

Fiscal Year Expenditures have reached \$25,000 for a single PO and External Searches have completed. Perform External Search to validate.

Payments rounded exactly to the \$1000

Vendor business name changed.

Payment being sent to a PO BOX

Vendor Changes

Field Changed	Old Value	New Value	Change Date
Business Name	WILLIAMS BUILDERS	WILLIAMS INC.	1/19/21

[Vendor Name Change Log](#) [+ Add Comment](#) 7

[+ Add Comment](#) 3

Message

Message	Performed By	Performed On
Feed Uploaded -- Activity Performed by -- Jared Hoffer	jhoffer	12/13/19, 3:25 AM
Processing -- Activity Performed by -- Jared Hoffer	jhoffer	12/13/19, 3:25 AM
Completed -- Activity Performed by -- Jared Hoffer	jhoffer	12/13/19, 3:25 AM
Review Completed. Comments -- Reviewed and validated -- Activity Performed by -- Bonefish AdminTF	taylor	12/15/19, 9:07 AM

16

Internal Controls Standards



17

Control Activities



Procedures put into place to run operations, accomplish goals, and prevent fraud

- Segregation of Duties
- Restrict access
- Establish Record keeping
- Created policies and procedures to ensure compliance



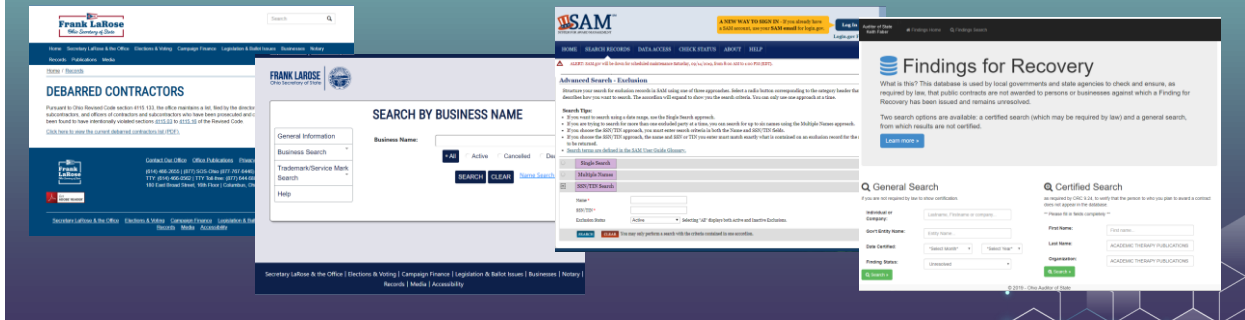
18

Control Activities - Ensure Compliance Continued...



Based on state and federal laws a vendor will require a compliance check if it meets one of the following criteria at payment time:

- Fiscal Year Payments have reached \$50,000 or more
- A PO/contract reaches \$25,000 or more in the Fiscal Year
- The payment was made with federal funds



19

Control Activities-Ensure Compliance



Check Number: 25521 Paid To: WILLIAMS BUILDERS

Prev Back To Analysis

Vendor Number	Check Issued To	Check Number	Check Amount
001079	WILLIAMS BUILDERS	25521	\$4,000.00

Check Itemized List

PO Number	Invoice Number	Account Code
10041	216148162	0530045904300000000000030000

Check Analysis

Analysis Message

Fiscal Year Expenditures have reached \$25,000 for a single PO and External Searches have not been completed. Perform External Search to validate.

Payments rounded exactly to the \$1000

Vendor business name changed

Payment being sent to a PO BOX

Compliance Search Results
WILLIAMS BUILDERS (001079)

Please review the compliance searches and look for matches. After reviewing the searches enter a comment and complete the compliance search for this vendor

Complete Compliance Search Comment

Findings For Recovery Details

Certified Search for Unresolved Findings for Recovery identified possible vendor matches. Please validate the name of the vendor is not listed in the box below.

Name	Address
(Shaw) Nohls, William	4210 State Road Vermilion Ohio 44089
2 B Natural by Design Enterprises, Inc.	2059 Big Tree Drive Columbus OH 43223
Academy Transport, Inc.	3897 E. 155th Street Cleveland OH 44128
Altair / xanaxis Management / Inc.	110 W Seneca St Columbus Ohio 43215

Excluded Parties List System Search

The Excluded Parties List System database returned no information for this vendor.

Debarred Contractors

Debarred contractors search returned no information for this vendor.

Ohio Business Filings Search

Ohio Secretary of State Business Filings search identified possible vendor matches. Please validate the vendor has an active business filing status on file.

Business Name	Filing Date	State	Filing Status
DAN K. WILLIAMS, INC.	10/31/96	Dead	Dead
DR. JAY A. WILLIAMS, INC., OPTOMETRIST	10/31/96	Dead	Dead
GRAY-WILLIAMS, INC.	10/31/96	Dead	Dead
WILLIAMS AND WILLIAMS, INC.	10/31/96	Cancelled	Cancelled

20

Internal Controls Standards



21

Information & Communication



- Establish Systems to track operations and compliance
- Establish multiple lines of Communication
- Distribute information in a timely manner

22

Information & Communication Cont.

ePAS File Is Ready For Review

File Information

File Type: Payroll

File Description: USPS Payroll Checks - 2021-09-27

Creation User: BonefishAdminBC

Creation Date: 09-27-21

You can review the file by clicking [here!](#)

eVAS File Review Complete

File Information

File Type: User Review

File Description: Yearly User Review

Creation User: BonefishAdmin

Creation Date: 08-05-21

Review Details

Reviewed By: BonefishAdminBC

Review Comment: undefined

Reviewed On: 09-28-21

You can review the file by clicking [here!](#)

23

Internal Controls Standards



Control
Environment



Risk
Assesment



Control
Activities



Information &
Communication



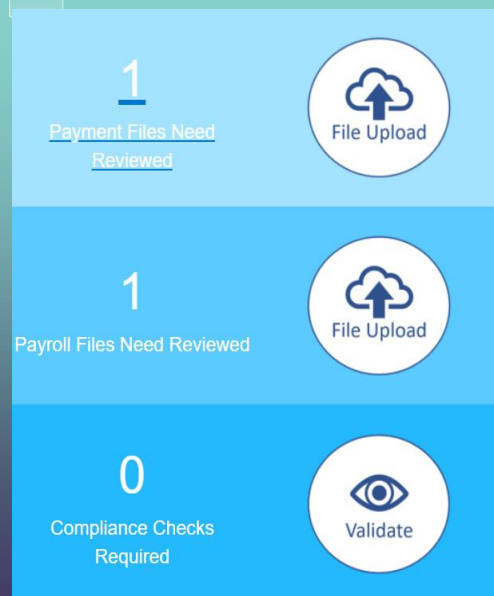
Monitoring

24

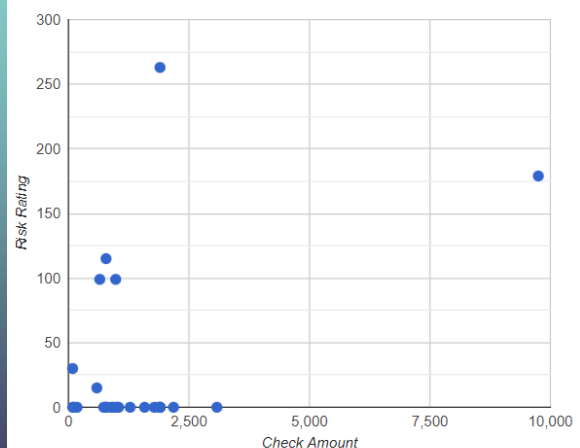
Monitoring

- Verify effectiveness of controls in place
- Establish a systems of controls on approvals and processes
- Continuously monitor controls for areas of risk

25



Risk Rating vs Check Amount



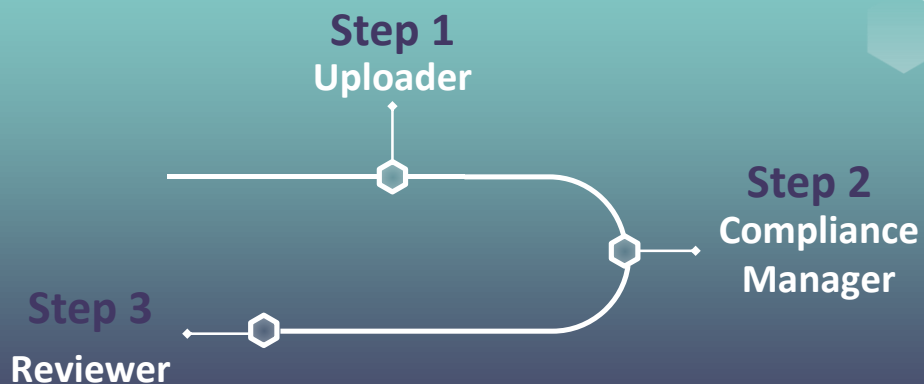
26

Key Internal Controls

- Segregation of Duties
- Documentation
- Authorization and Approvals
- Ongoing Internal Reviews

27

Segregation of Duties



28

Documentation



Vendor Document Upload

File Type
 Select File Type
 Certificate of Liability Insurance
 Bid
1099 Form
 Contract
 Other

Expiration Date (Optional)
 < September 2021 >

Su	Mo	Tu	We	Th	Fr	Sa
29	30	31	1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	1	2

Submit

Actions

- Q Perform Compliance Search
- Upload Vendor Document**
- + Match Vendor To Employee

- Workplace Training System
- Send Employee Training
 - Training Module Report
 - Bonefish Workplace Training Subscription

29

Authorization and Approvals



Vendor/Employee Last name Matches

Vendor Number	Vendor Name	Vendor Check Name	Vendor Address	Vendor Phone
001100	SCOTT MITCHELL LANDSCAPING	SCOTT MITCHELL LANDSCAPING	2015 JULIA AVE	2169918765

Employee Number	Employee Name	Employee Address	Employee City	Last Paid Date	Action
Q CMILL2592	MITCHELL, BARB	2015 JULIA AVE	AVON	11/8/19	Match Vendor To Employee

Fiscal Officer Certificate

As fiscal officer of [REDACTED] District, I certify that at the time the purchase was made a sufficient sum appropriated by the Board of Education for the purpose of such contract or order was in place.

Accordingly, I hereby authorize the payment of the amount due under the purchase order. This certificate is rendered pursuant to Section 5705.41(D)(1) of the Revised Code.

☐ Authorize Certificate

Authorize Certificate Of Fiscal Officer

Total Payroll Checks

25

Total Amount Of Checks

\$36,858.73

Summary Information

Q Analysis Message Comments 0

Review Complete Comment

Review Pending Comment

30

Ongoing Internal Review



Outstanding Compliance Searches
 Vendor Audit Report

Completed eVAS Compliance Searches

Which fiscal year do you want to examine?

Which type of search do you want to examine?

Start Date: End Date:

EXPORT AS: [EXCEL](#) [PDF](#) [EMAIL](#)

Vendor Name	Vendor Number	Completion Date
<input type="text" value="Vendor Name"/>	<input type="text" value="Vendor Number"/>	

Duplicate Vendors With Matching Tax IDs Report

EXPORT AS: [EXCEL](#) [PDF](#) [EMAIL](#)

Duplicate Vendor Count	Matching Tax ID (Last 4)	Vendor Number
View 2 Duplicate Vendors	<input type="text" value="Tax ID"/>	<input type="text" value="Vendor Number"/>
View 1 Duplicate Vendors	5633	000869
View 1 Duplicate Vendors	5632	000060
View 1 Duplicate Vendors	5632	000410
View 1 Duplicate Vendors	5699	000603

Employee Vendor Relationship Report

Select [All](#)

EXPORT AS: [EXCEL](#) [PDF](#) [EMAIL](#)

Employee Number	Employee Name	Employee Last Paid Date	Vendor Number	Vendor Name
<input type="text" value="Employee Number"/>	<input type="text" value="Employee Name"/>	<input type="text" value="Last Paid Date"/>	<input type="text" value="Vendor Number"/>	<input type="text" value="Vendor Name"/>
CMILL2592	MITCHELL, BARB	11/8/19	001100	SCOTT MITCHELL LANDSCAPING
RHARD2562	FREDRICK, JOHN S.	11/8/19	000181	JOHN FREDERICK

31

Questions?



Tom
Mitchell

614-427-3827
info@bonefishsystems.com

Clint
Pelfrey

32