

2010 BRINGING ADMINISTRATORS TOGETHER CONFERENCE

# The Importance of Internal Controls at the Unit Level

**UIC** UNIVERSITY OF ILLINOIS  
AT CHICAGO

*Succeeding in Challenging Times*

## Workshop Presenters

- Ron Miner  
Associate Director of Accounting Consulting  
(217) 265-5315 [rminer@uillinois.edu](mailto:rminer@uillinois.edu)
- Uma Sriram  
Accounting Consulting Coordinator  
(312) 355-4935 [usriram@uillinois.edu](mailto:usriram@uillinois.edu)
- Neal Crowley  
Director University Audits  
(312) 996-2748 [ncrowley@uic.edu](mailto:ncrowley@uic.edu)
- Vanessa Smith  
Associate Director for Business and Finance  
(312) 413-1920 [vcsmith@uic.edu](mailto:vcsmith@uic.edu)

## Workshop Objectives

- Recognize the key concepts of internal controls
- Understand the importance of internal controls at the unit level
- Know in-house resources available

## What is Internal Control?

- A process within an organization designed to provide reasonable assurance:
  - That information is reliable, accurate, and timely.
  - Of compliance with policies, plans, procedures, laws, regulations, and contracts.
  - That assets (including people) are safeguarded.
  - Of the most economical and efficient use of resources.
  - That overall established objectives and goals are met.
- Intended to prevent errors or irregularities, identify problems, and ensure that corrective action is taken.

## Internal Controls May Be:

- **Preventive** – stops something from happening
- **Detective** – finds out what happened, alerts you as it happens or shortly after
- **Corrective** – follow detective controls, recovery from consequences of an error or unexpected event
- **Directive** – tells folks what should happen

### **Preventive Controls**

- Security Access
- Segregation of duties
- Physical controls over assets
- Authorized signers
- University payables review and approval of travel vouchers prior to processing
- Reminders of policies, procedures, and expectations

### **Detective Controls**

- Banner account reconciliations
- Management review of reconciliations
- Physical inventories
- P-Card logging, reconciliation, and approval
- Review of budget to actual
- Year to year expenditure trending
- Internal auditors

### **Corrective Controls**

- Error communication and reporting
- Documentation systems or processes
- Improvement initiatives
- Discipline actions

### **Directive Controls**

- University of Illinois Statutes
- OBFS policies and procedures
- Campus Administrative Manual
- College policies
- Unit procedures

## Who's Responsible???

- Board of Trustees
- President
- Line management
- Frontline Personnel
- Internal Audit



University policy establishes some responsibilities for the internal control system to all University employees.

“Internal control gets us where we want to go, without surprises along the way.  
Internal control is everyone’s responsibility...Internal control is me.”

- From a Cargill Corporation presentation

# Internal Control Pyramid



## What is the “Control Environment” ?

- Personal and professional integrity and ethical values of management and staff
- Established at all levels of an organization
- Official communication on compliance and individual responsibility
- Management’s actions related to gathering facts and giving advice
- Importance of approvals and actions allowed for circumventing any departmental staff positioned to provide controls
- Public and private responses to official communications and/or individuals on policies, control activities, and guidance from above
- Commentary around the table
- Responses to problems, abuse, misuse, or violations of expectations

## How YOU Can Improve the University's Control Environment

- Communicate clearly
- Accuracy counts...take your time
- Don't just talk the talk, *walk the walk*
- Check the public and private responses
- Use exceptions/errors as opportunities to teach what's right
- Don't let abuse or misuse go
- Don't be a party to circumvention of controls
- Perform an annual risk assessment in conjunction with a review / update of your unit's strategic plan

# How can you address noted control weaknesses?

*In General...*

## SEGREGATION OF DUTIES

- Review segregation of duties and systems access (i.e., look for processes missing another set of eyes)
- Be creative with mitigating controls

## P-CARD MANAGEMENT

- Ensure cards are not shared and all transactions are independently reconciled
- Review a sample of your unit's P-Card transactions for compliance
- Identify and correct process weaknesses
- Emphasize compliance responsibilities in staff meetings
- Establish requirements for adequate supporting documentation to support the business purpose and source of funds for the transaction

## GIFTS, DONOR INTENT

- Obtain UIF reports on gift fund accumulations and establish a plan to use or reinvest them
- Develop and maintain a guide for intended use of departmentally controlled gift funds which is accessible to business staff as well as faculty

# How can you address noted control weaknesses?

## INFORMATION SECURITY

- Establish a disaster recovery plan appropriate to your unit... look at more than just business information technology - include fiscal location and communication if important
- Establish procedures to periodically test your business continuity / disaster recovery plan
- Develop and communicate a plan for security incidents
- Establish procedures to revoke all system access (e.g., Banner, shadow systems, EDDIE, etc.) when employees leave your unit
- Periodically review system access for all employees and adjust according to responsibilities
- Meet with operational and IT personnel to identify all areas of confidential data (e.g., SSN, credit card information) and discuss the policies for handling

## TRANSACTIONS WITH TAX COMPONENTS

- Track complimentary items, gifts (e.g., flowers, retirement gifts, etc) and unusual compensation considerations
- Work with UIF to appropriately value non-monetary gifts and report all gifts
- Seek advice from OBFS, UIF, OSPRA for gift vs. grant vs. self-supporting revenue determinations

# How can you address noted control weaknesses?

- GRANT CLOSE-OUTS
- Note technical report due dates and follow up with PI's to confirm reporting has been appropriately completed
  - Monitor expenditures and make necessary corrections (cost transfers, labor redistributions) in a timely manner
  - Address overdrafts immediately
  - Work with GCO to ensure all unit responsibilities for end-of-grant activities are fulfilled, including collection of outstanding bills to sponsors (you can use FZAAREV to monitor)
- DEFICITS
- Implement appropriate monitoring of *all* funds for which your unit is responsible to ensure timely detection or prediction of deficits
  - Work with the department head and/or college and/or provost budget office to develop a deficit reduction plan
  - Monitor progress against the plan in a timely manner and at appropriate frequency
- CONFLICT OF INTEREST
- Regular staff meetings for awareness, education, and reminders (e.g., contract policies, conflict of interest, receipts, use of University resources)

# How can you address noted control weaknesses?

## SELF-SUPPORTING ACTIVITIES

- Familiarize yourself with [LAC Guidelines](#)
- Monitor activity (revenue and expenditure) to ensure appropriate relationship to the purpose of the activity
- Monitor inventory (purchases and merchandise stocks)
- Work with OBFS and the Study Abroad Office to ensure appropriate accounting for revenue, expenses, and risks associated with study abroad programs

## ACCOUNTS RECEIVABLE

- Monitor aging of your unit's A/R Detail Code(s) at appropriate frequencies
- Follow promptly with accounts that are aging
- Communicate collection issues to your operations staff to protect against building up uncollectible balances
- Work with USFSCO staff for possible escalation of collection efforts

# How can you address noted control weaknesses?

## FEE STRUCTURES

- Perform a detailed review of pricing policies for self supporting activities
- Are prices consistent with / inclusive of costs charged to the activity?

## RECONCILIATIONS

- Include all funds in your org and all transactions in those funds
- Include OL and GL

## CONTRACTING

- Avoid using MOU or other form of contract which is inappropriate for services received
- Ensure contracts are appropriately approved, including by Legal Counsel if not using a standard form
- Ensure appropriate signature: only one signature is authorized to execute agreements on behalf of the University (Comptroller) and should be attested by the signature of the Secretary of the BOT

## REVENUE- GENERATING ACTIVITIES

- Use contracts
- Prepare timely billings – either independent of Banner (with permission) or in Banner GAR
- Monitor receivables and collections

# How can you address noted control weaknesses?

## CASH HANDLING / SALES REVENUE

- Review procedures for documenting and recording sales, timeliness of deposits, segregated reconciliations, handling of refunds, and contracting procedures for revenue-generating agreements

## STOREROOM MANAGEMENT

- Establish appropriate inventory management practices, determine minimum optimal inventory levels and strive for just-in-time purchasing
- Establish efficient purchasing procedures, including vendor and optimal purchase-quantity analyses
- Segregate purchasing responsibilities from inventory management responsibilities and from sales responsibilities
- Maintain perpetual inventory records
- Perform regular reconciliations between perpetual inventory records and actual physical inventory
- Regularly review sales and inventory levels to detect slow-moving or obsolete items, adjust purchasing habits accordingly



# How can you address noted control weaknesses?

## EQUIPMENT RECORDKEEPING

- Take your Biennial Inventory seriously
- Implement regular reconciliations or inventory spot-checks in the interim periods and ensure existence, condition, and location of equipment is accurate in the University record

## GIFTS FROM FACULTY IN SUPPORT OF THEIR OWN PROGRAM(S)

- Review potential conflicts of interest, ensure gifts are not used in support of the faculty's salary or benefits
- Segregate control of funds if possible

## EMPLOYEE PERFORMANCE EVALUATIONS

- Ensure all performance evaluations are completed annually and appropriately documented

## DUPLICATE TRAVEL REIMBURSEMENTS

- Communicate with other units which your faculty or staff have a dual relationship
- Ensure reimbursements are supported by only original documentation

## “Quotable Quotes”

- “I thought she was doing that.”
- “The staff wouldn’t approve his transactions anymore, they would always bring them to me for approval.”
- “Everything she does is an exception.”
- “I could never get her to put that in writing.”
- “He wore me down.”
- “He was always sending emails after our discussions that would interpret things slightly different.”
- “We were concerned when saw the FOIA request.”
- “We only let him do it that one time. We told him next time it would not be approved.”
- “We don’t have enough staff to have adequate segregation of duties.”
- “She was mean to staff if they asked questions about her expenditures.”
- “I trust him.”

# Your processes...

## And In The End...

- Does it make sense?
- Is it all documented?
- Everyone that should have approved – did?

Given all the information you have, would it pass the headline test?

## Issues & Concerns: ACG engagements

- University unit recorded cash deficits and/or fund balance deficits for a number of years
- Large amount of checks were stored in unsecured locations and were not turned over to the Cashiers per University policies
- University department recorded more than 900K loss in one accounting period
- University unit did not bill its customers or reconcile accounts receivable on a timely basis and did not pay the vendors promptly

## Issues & Concerns: ACG engagements

- Lack of year end accrual postings resulted in understatement of inventory balance and overstatement of fund balance
- State compliance audit revealed that University department reimbursed subcontractors without adequate receipts and/or valid supporting documentation
- Inadequate collection efforts resulted in filing of more than 6M dollars in court of claims

## What controls failed

- Lack of management oversight
- No proper reconciliation of monthly management reports to departmental source documents
- Insufficient monitoring of expenditures against budgeted amounts
- Lack of attention to detail
- No proper cash handling procedures in place and violation of University policies
- Inadequate approval and verification of invoices
- No proper aging of accounts receivable

## What controls failed

- Inadequate control environment/business policies and processes
- No proper inventory reconciliations
- Poor collection efforts and accounts receivable monitoring



*How ACG (Accounting Consultants  
Group) can help..*

## Analyzing a Unit

- Define the problem and determine goals and objectives
  - Operations objectives
  - Financial reporting objectives
  - Compliance objectives
- Understand what caused the problem
- Assess the risks
  - Assess risks at the departmental level
  - Assess risks at the activity or process level

## Analyzing a Unit

- Analyze existing business processes and controls
  - Documentation
  - Interviews
  - Direct observation
  - Participant observation
- Identify responsible parties
- Develop new or enhance existing business processes and controls
- Implement business process improvements and controls

## Process Improvements : A collaborative effort

- Check handling process improvements
  - Timeliness of deposits consistent with policies and procedures
  - Safeguarding of checks prior to deposit
- Reconciliations
  - Banner payable data with open invoices from vendor
  - Vendor credits with merchandise returns
  - Banner activity with unit sub-systems
  - Unit statements are reviewed and reconciled to supporting documentation
  - Reconciling differences and unsupported transactions are investigated and corrected timely

## Process Improvements : A collaborative effort

- Accrual accounting
  - Accurate recording of transactions in the proper accounting period
  - Development of new procedures
- Accounts receivable processing
  - Customers receive timely and accurate billings
  - Lapsed appropriation claims are promptly filed with the Court of Claims
  - Changed payment terms
  - Improvements in operating efficiency/effectiveness
  - Improved accuracy of quarterly accounts receivable reporting to the State

## Process Improvements : A collaborative effort

- Reporting from Banner and unit sub-systems
  - Establish controls to ensure that month-end close processes are followed diligently
  - Perform monthly reconciliations of Banner and sub-system data
  - Provide accurate year-end closing data to external auditors
  - Unit statements are reviewed and reconciled to supporting documentation
  - Reconciling differences and unsupported transactions are investigated and corrected timely
  - Does integrity of financial and operational results take priority over reporting acceptable performance targets
  - Are unit performance targets realistic and attainable?

## Process Improvements : A collaborative effort

- Training
  - Make sure that employees are well acquainted with the University's policies and procedures that pertain to their job responsibilities.
  - Make sure that the department has well-written departmental policies and procedures manual which addresses its significant activities and unique issues.
  - Staff cross-training to oversee electronic data invoice processing, billing and querying of data

## Process Improvements : A collaborative effort

- Management reviews of operating performance
  - Budget to actual comparisons
  - Current to prior period comparisons
  - Performance indicators
  - Follow up on unusual items or unexpected results



# A Unit's Perspective on FCIAA Reporting

**UNIVERSITY OF ILLINOIS**

**FISCAL CONTROL AND INTERNAL AUDITING ACT CERTIFICATION**

The following questionnaire is designed to provide the appropriate information to the University administration to assist in its response to the certification requirements of the State's Fiscal Control and Internal Auditing Act. It is important to note that unit heads and fiscal officers are responsible for ensuring the effectiveness of the fiscal/internal controls in their respective units, and for addressing any weaknesses.

The statements in this document describe a variety of fiscal and administrative controls that should represent the current operating environment within the unit. The blanks on the questionnaire are designed to be answered with one of the following responses:

*Yes* - This control is included in the normal operating practices of my unit, and is applied on a consistent basis.

*Partial* - This control exists in my unit, but may not be applied consistently.

*No* - This control does not exist in my unit.

*N/A* - Not applicable

In completing the questionnaire, a "partial" or "no" response to a statement may indicate a weakness in fiscal or administrative controls, and hence an opportunity for improvement. Space for written comment is provided after each section for any additional information the unit needs to provide in conjunction with their responses. Written comments can be used to indicate corrective actions in progress at the unit, requests for guidance/assistance, or to communicate any other information the unit believes is important to understanding the responses provided on the questionnaire. If a unit answers "partial" or "no" in response to a statement, a written comment supplementing the response is recommended.

Units are required to follow up on any potential control weaknesses and take appropriate corrective action.

**Asset Management**

- \_\_\_\_\_ Changes, transfers, and deletion of assets are recorded promptly in unit equipment inventory records.
- \_\_\_\_\_ University property control decals are promptly affixed to equipment as required by University guidelines.
- \_\_\_\_\_ If scheduled for completion during the past year, the unit has conducted its equipment inventory in accordance with University guidelines and submitted required reports to the Property Control Office.
- \_\_\_\_\_ The unit has completed a physical inventory of its *merchandise for resale* and reconciled the results with its financial record in accordance with established University policies and procedures. (Note: This control applies only to units that sell merchandise to customers.)
- \_\_\_\_\_ University equipment has not been physically removed from campus for disposal or transfer prior to receiving authorized approval in compliance with University policies and procedures and State regulations.
- \_\_\_\_\_ Cash under the control of the unit is managed in accordance with University policies and procedures established for cash controls.
- \_\_\_\_\_ Funds, property, and other assets and resources (including the University P-Card) are safeguarded against waste, loss, unauthorized use, and misappropriation.

Comment:

**Financial Management**

- \_\_\_\_\_ Accounting financial statements are reviewed each month and appropriate actions are initiated to reconcile transactions to unit records.
- \_\_\_\_\_ Business plans have been developed for clearing deficit balances in excess of \$10,000 and such plans have been submitted to the designated campus office in accordance with University policy and procedure.
- \_\_\_\_\_ Staff responsible for FOAPAL management understand the University policies related to the use of these funds.
- \_\_\_\_\_ There is a process in the unit for the review of FOAPALs to ensure they have been properly used.
- \_\_\_\_\_ Self-supported FOAPALs have been reviewed to determine that they are used only for the purpose originally stated and that the continued use of the FOAPAL is warranted.
- \_\_\_\_\_ Faculty and staff have been made aware of the rules and regulations for the use of sponsored research funds under their control.
- \_\_\_\_\_ All expenditures, including payroll expenses, incurred under a sponsored research agreement in unit are reviewed for allowability by the principal investigator or another individual with suitable means of verification.
- \_\_\_\_\_ The performance of subgrantees/subcontractees on sponsored research projects is monitored to ensure that they are meeting all terms and conditions of their subagreements.
- \_\_\_\_\_ Management oversight is provided to ensure that gift funds under the control of the unit are used only for the purpose for which they are given.
- \_\_\_\_\_ Faculty and staff responsible for University P-Card use and management understand the University policies related to the use of this purchase instrument.
- \_\_\_\_\_ Accounts receivable (and appropriate allowance for doubtful accounts) are promptly recorded when services are rendered or merchandise is sold, and unit accounts receivable records are reconciled to general ledger on a monthly basis.
- \_\_\_\_\_ Encumbrances and costs incurred by my unit and resources available to my units are utilized efficiently, effectively, and in compliance with University policies, procedures and guidelines.
- \_\_\_\_\_ Revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for.

Comment:

**Transactions and General**

- \_\_\_\_\_ The unit has reviewed the systems access and approval profiles to determine if they are appropriate and has deleted any authorizations which are no longer valid.
- \_\_\_\_\_ Access to sensitive or confidential information is restricted to staff who utilize such information in the performance of their duties.
- \_\_\_\_\_ Unit staff members who have financial security and approval authority are aware of and accept the responsibility inherent in this authority.
- \_\_\_\_\_ Professional service contracts are fully executed prior to services being rendered.
- \_\_\_\_\_ University P-Card transactions are reconciled on a timely basis and reviewed by appropriate management staff.
- \_\_\_\_\_ Documentation for departmental P-Card transactions is properly maintained and available for audit purposes.
- \_\_\_\_\_ Duties within the unit are properly segregated so that there are appropriate checks and balances for all transactions (Adequate segregation of duties translates to no one person performing the critical elements of initiating, processing, recording and reconciling.)
- \_\_\_\_\_ Upper management of unit demonstrates an awareness of the statutes, rules and guidelines governing their unit's financial activities.
- \_\_\_\_\_ Upper management of unit participates in key decision making including budgets, purchases of expensive goods and services and the hiring and firing of key employees.
- \_\_\_\_\_ Lines of authority are clearly understood throughout the unit.
- \_\_\_\_\_ University, campus and unit planning, policy and procedural manuals are used by unit management to communicate and define goals and objectives and outline the methods to be followed by employees in achieving the goals and objectives. All employees have access to these materials.
- \_\_\_\_\_ Reports are submitted to and reviewed by upper management of a unit on a regular basis which summarize activities, programs, transactions and financial status.
- \_\_\_\_\_ A system is in place to provide management with explanations of significant variances between budgeted and actual revenues and expenses.

Comment:

I certify that I have accurately responded to the above information to the best of my knowledge.

UNIT HEAD:

UNIT FISCAL OFFICER:

## Overview

- Every year the financial manager & unit head has to make a certification as to having adequate internal controls for Asset Management, Financial Management & Transactional Processing
- To ensure that internal controls can be enforced, there has to be an adequate number of people to implement the controls. If a unit is small, assign someone else from a different unit in the college or possibly assign the department head
- On an annual basis, prior to certification time, compare the operations of your unit to the FCIAA questionnaire (see page one) and identify any weaknesses

## Asset Management-Internal Control Highlights

- Changes, transfers, and deletion of assets are recorded promptly in unit equipment inventory records
- University property control decals are promptly affixed to equipment as required by University guidelines
- The unit has completed a physical inventory of its *merchandise for resale* and reconciled the results with its financial record in accordance with established University policies and procedures. (Note: This control applies only to units that sell merchandise to customers.)
- Cash under the control of the unit is managed in accordance with University policies and procedures established for cash controls
- Funds, property, and other assets and resources (including the University P-Card) are safeguarded against waste, loss, unauthorized use, and misappropriation

# Financial Management-Internal Control Highlights

- All expenditures, including payroll expenses, incurred under a sponsored research agreement in unit are reviewed for allowability by the principal investigator or another individual with suitable means of verification
- Management oversight is provided to ensure that gift funds under the control of the unit are used only for the purpose for which they are given
- Accounts receivable (and appropriate allowance for doubtful accounts) are promptly recorded when services are rendered or merchandise is sold, and unit accounts receivable records are reconciled to general ledger on a monthly basis
- Revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for

# Transactional Processing-Internal Control Highlights

- The unit has reviewed the systems access and approval profiles to determine if they are appropriate and has deleted any authorizations which are no longer valid
- Duties within the unit are properly segregated so that there are appropriate checks and balances for all transactions (Adequate segregation of duties translates to no one person performing the critical elements of initiating, processing, recording and reconciling)
- Lines of authority are clearly understood throughout the unit
- Reports are submitted to and reviewed by upper management of a unit on a regular basis which summarize activities, programs, transactions and financial status.

Thank you...

Questions????

# Links

<http://www.obfs.uillinois.edu/manual/index.html>

<http://www.audits.uillinois.edu>

<http://tigger.uic.edu/depts/ovcr/research/conflict/index.shtm>

[http://www.vpaa.uillinois.edu/policies/ai\\_toc.asp?bch=0](http://www.vpaa.uillinois.edu/policies/ai_toc.asp?bch=0)

<http://www.uic.edu/depts/oea/>

<http://www.auditor.illinois.gov/Audit-Reports/ABC-List.asp#sectu>

<http://www.theiia.org/guidance/standards-and-practices/>

<http://www.nacubo.org/>

<http://www.cra-cert.org/whatiscert.html>