



UNIVERSITY OF ILLINOIS

AT URBANA-CHAMPAIGN



2015 BUSINESS LEADERSHIP CONFERENCE

Internal Control Concepts and Applications for Business Operations at the University of Illinois

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A Shared Vision

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 **effective**, 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, Detective, Corrective, Directive

Key Internal Control Concepts:

- Not static
- Effected by people
- Objective is reasonable assurance
- Applicability:
 - Financial and administrative processes
 - Operational processes
 - Compliance processes
 - Governance processes

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 <ul style="list-style-type: none">• 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 <ul style="list-style-type: none">• 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 <ul style="list-style-type: none">• Error communication and reporting• Documentation systems or processes• Improvement initiatives• Discipline actions	Directive Controls <ul style="list-style-type: none">• 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

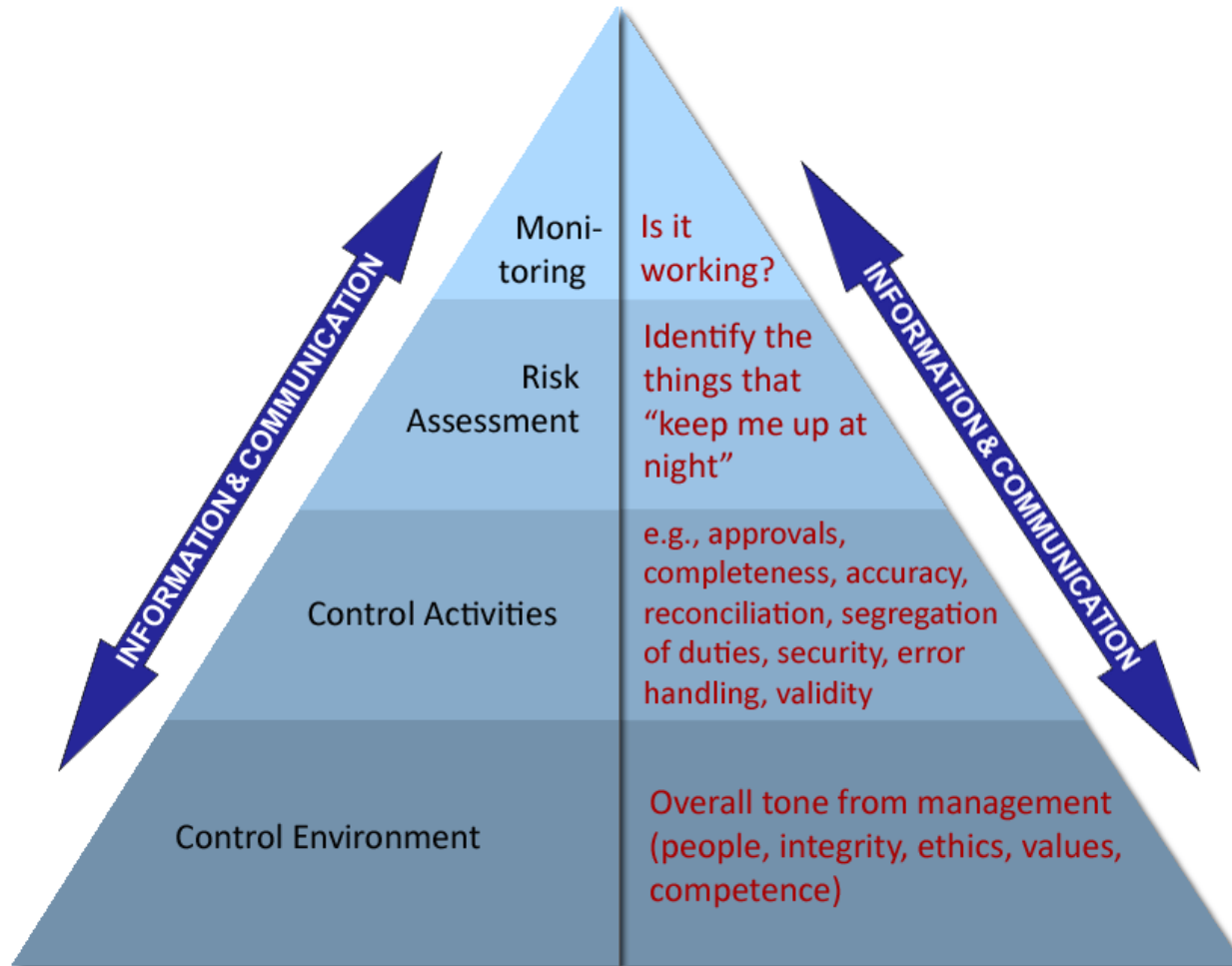


University policy establishes some responsibilities for the internal control system to all University employees.

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

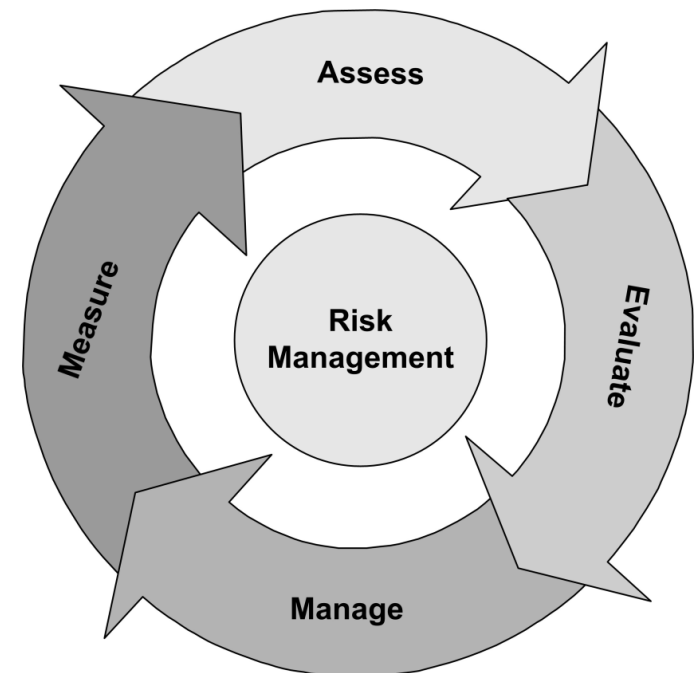
- From a Cargill Corporation presentation

Internal Control Pyramid



Risk Assessment

- Identification of risk factors with regard to objectives
 - External factors (e.g., economic factors, rules, regulations)
 - Internal factors (e.g., new personnel, low morale)
- Risk Analysis
 - Estimate significance of the risk
 - Estimate likelihood of occurrence
- Manage Risks:
Assessing options for controls
 - Differing types of controls
 - (e.g., preventive, detective, etc.)
 - Resource availability
 - Cost / Benefit



Control Activities

- Documentation, Approval, Authorization, Verification
- Segregation of duties
- Top level performance monitoring
 - Performance Indicators
- Supervision: Direct functional or activity management
- Information processing
- Safeguarding Assets: Physical controls

Limitations

- Judgment (Human error)
- Breakdowns
 - Misunderstandings
 - Carelessness
 - Distraction
 - Reliance on person instead of process
- Management override
- Collusion
 - Dishonesty
- Cost versus benefits

Most Common Control Weaknesses

- Segregation of duties
- Reconciliations
 - Completeness
 - Competent and knowledgably placed staff
- Adequate documentation supporting transactions and/or decisions
- Compliance with University policies for spending based on fund or funds purpose

What is the “Control Environment?”

- Personal and professional **integrity**
- Values and **ethics** 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 placed on approvals and actions
- Tolerance (or lack thereof) for circumvention of controls or 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

Tips for Success

- Prioritize training
 - At all levels, including taking advantage of opportunities for faculty “training”
 - Consider subject matter and frequency
 - Refreshers are a good thing
- Embrace and aggressively use of data analysis and reporting tools (e.g., EDW, Webi)
- Network of advisory resources with varied participants
- Seek advice and perspectives and create a culture of asking questions
- Encourage confidence (at all levels) to challenge decisions or actions (e.g., incorrect, unethical, inefficient) and accept feedback on decisions with open minds
- Carefully and selectively delegate roles to ensure a balanced handle on the “forest and the trees”
- Recognize the importance of the control environment
- Perform little re-assessments regularly

Key Internal Control Points

Control Points	Suggestions
<p>Self Supporting Activities</p> <ul style="list-style-type: none"> • Adequate rate consideration <ul style="list-style-type: none"> • Review of and supporting analyses for rate or fee structures • Consistency in applying rates and discounts • Awareness of subsidies • Monitoring or quantification of subsidies • Appropriate classification of activities • Expenses directly related to the revenue-generating activity • Use of contracts when required • Related: Storeroom Management <ul style="list-style-type: none"> • Purchasing, Inventory, Reconciliations 	<ul style="list-style-type: none"> • Work with Governmental Costing to determine if rates assessed are appropriate • Document basis for rates • Review actual nature of activity vs business purpose / mission • Perform annual fund balance analyses; review and address deficits or overages outside of tolerance • Review ‘customer’ makeup – external vs. internal – is the fund type appropriate (3E vs 3Q)? Work with UAFR if this is in question. • Review nature of costs charged to the fund Complete? Appropriate? • Completeness controls over billing • Are appropriate inventory management procedures and reconciliations in place? • Follow LAC guidelines

Key Internal Control Points

Control Points	Suggestions
Deficit Monitoring and Reduction Planning <ul style="list-style-type: none"> • Formal plan for reduction • Appropriate approval for a plan • Adequately address deficit elimination: actionable 	<ul style="list-style-type: none"> • Implement appropriate monitoring of <i>all</i> unit funds 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 • Timely and regular monitoring of progress against the plan
Gifts <ul style="list-style-type: none"> • Compliance with gift agreement terms <ul style="list-style-type: none"> • Donor Intent • Board of Trustee established requirements 	<ul style="list-style-type: none"> • Review gift agreement terms on an annual basis – against original documents, not internal notes • Develop and maintain a guide for intended use of departmentally controlled gift funds which is accessible to business staff as well as faculty • Obtain UIF reports on gift fund accumulations and establish a plan to use or reinvest them • Gifts from faculty should not be deposited into funds which support his/her own program unless control of the funds is segregated

Key Internal Control Points

Control Points	Suggestions
<p>Conflict of Interest and/or Commitment</p> <ul style="list-style-type: none"> • Appropriate Review <ul style="list-style-type: none"> • No Delegation (not permitted) • Documentation of conclusions or additional information gathering • Reference to existing management plans • Appropriate Processing <ul style="list-style-type: none"> • All required employees completed a form • Joint appointment issues addressed in approval process and routing • Management plans/committees are active and functioning • Illinois Procurement Code • Other Conflicts <ul style="list-style-type: none"> • Nepotism, personal relationships 	<ul style="list-style-type: none"> • Regular staff meetings for awareness, education, and reminders (e.g., contract policies, conflict of interest, receipts, use of University resources) • Seek advice from the Associate Vice Chancellor for Research re: faculty conflicts • Unit head / director must review and approve all – delegation is not permissible • Develop mechanisms (calendar / task reminders, etc) to ensure management plans are functional • Integrate information into ongoing departmental processes such as purchasing, grant administration

Key Internal Control Points

Control Points	Suggestions
Information Security <ul style="list-style-type: none">• Account Access Reviews• Data Classification• Security Incident Procedures• Security awareness training for staff• Business Continuity planning• Data backup	<ul style="list-style-type: none">• Establish procedures to periodically review and adjust, user access to systems (e.g., Banner, EDDIE, college and unit systems and resources); Establish procedures to revoke user access to systems when individuals leave your unit• Meet with operational and IT personnel to identify High Risk and Sensitive information (e.g., SSN, FERPA, HIPAA, PCI, Federal restrictions, PIPA, Banking)• Develop and communicate a plan for security incidents• Meet with operational and IT personnel to discuss the policies for handling High Risk and Sensitive information• Develop, and periodically test and update a plan appropriate to your unit• Establish off-site backup at a frequency appropriate and adequate for operational needs

Key Internal Control Points

Control Points	Suggestions
<p>PCard / TCard</p> <ul style="list-style-type: none"> • Documented business purpose • Documented transaction support • No personal expenditures • Independent reconciliation <ul style="list-style-type: none"> • With original receipts • With travel voucher • Attention to the “big picture” <ul style="list-style-type: none"> • Do we have the “right” amount of PCard or TCard volume given other, better controlled, procurement options? 	<ul style="list-style-type: none"> • Ensure cards are not shared and all transactions are independently reconciled • Review a sample of your unit’s PCard / TCard 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 • Review PCard / TCard activity at a high level for an extended period of time – are vendors available in i Buy? Potential for a Standing Purchase Order? Other efficiencies to be gained? • Ensure reconciler has adequate knowledge of and exposure to departmental or programmatic activities

Key Internal Control Points

Control Points	Suggestions
Sponsored Projects (Grants / Contracts) <ul style="list-style-type: none"> • Effort commitment and consistency in reporting and records • Effort expended and paid in the same period • Administrative costs excluded from grants • Charges are allocable to the project • Expenditure relationship to the grant • Adequacy of business justification • Closeout: Timeliness 	<ul style="list-style-type: none"> • Keep Current and Pending records current, use in monitoring and approving proposals and in effort-related certifications (ARS, Semiannual Expenditure Confirmations) • Education and awareness efforts for faculty and administrative support staff • Periodically discuss effort / activities with faculty and ensure actual efforts are consistent with ARS, Banner appointments • Make initial project appointments according to approved project budgets, discuss variances with faculty • Require departmental approval for contributed effort • Monitor technical report due dates and confirm submission • Monitor expenditures and make necessary corrections in a timely manner • Address overdrafts immediately

Key Internal Control Points

Control Points	Suggestions
HR/Payroll <ul style="list-style-type: none"> • Timesheets appropriately approved with segregated routing • Appropriate prior approval for supplemental pay (SIE, lump, adjustments) • Properly ending jobs for hourly employees 	<ul style="list-style-type: none"> • Use electronic timecard routing where possible • Route timecards directly from approver to processor, eliminate any processes which provide access to an approved timecard by the employee being paid • Make commitments to faculty according to an approved and consistently applied methodology, including approval processes • Monitor all open jobs periodically for appropriate end date
Management Information <ul style="list-style-type: none"> • Value of information provided to management, decisionmakers • Track commitments 	<ul style="list-style-type: none"> • Provide timely and understandable summary financial reporting to management and employees responsible for managing programs • Provide timely, accurate, and understandable detailed financial statements as appropriate to faculty, program management, other process owners • Maintain recordkeeping of financial commitments made by the department (to other units, faculty) which aren't tracked in Banner (i.e., encumbrances)

Key Internal Control Points

Control Points	Suggestions
Other <ul style="list-style-type: none"> • Reconciliations • Segregation of duties or mitigating controls • Appropriate time and/or leave approval 	<ul style="list-style-type: none"> • Ensure anyone with reconciliation responsibilities has appropriate level of knowledge of and exposure to the business and/or programmatic activities • Establish expectations for existence and <u>quality</u> of support for transactions • Consider differences in transaction type • Consider completeness • Review segregation of duties and systems access (i.e., look for processes missing another set of eyes) • Be creative with mitigating controls • Review responsibilities and processes for opportunities to segregate • Regularly monitor Banner leave balances and time entry

Key Internal Control Points

Control Points	Suggestions
Other <ul style="list-style-type: none"> • Transactions with Tax Components 	<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • Contracts 	<ul style="list-style-type: none"> • Ensure contracts are appropriate for the type of service provided • Execution must occur prior to the date services are to commence or goods delivered • Avoid using MOU or other form of contract which is inappropriate for services received • Ensure appropriate authorized signature of the Comptroller's departmental delegate and only used on contracts executable directly by a department

Key Internal Control Points

Control Points	Suggestions
Other <ul style="list-style-type: none"> • Revenue/Receivable/Cash 	<ul style="list-style-type: none"> • Use contracts where appropriate • Timely billing • Use A/R Detail Codes, monitor aging at appropriate frequencies • Follow promptly with aging accounts, communicate collection issues to your operations staff to protect against building up uncollectible balances • Work with USFSCO staff for possible escalation of collection efforts • Good documentation for sales, deposits, refunds • Timely billing, deposits, refunds, reconciliations • Segregated reconciliations, handling of refunds, and contracting procedures for revenue-generating agreements • Reconciliation of credit card revenue, special attention to refunds • Re-evaluate whether cash-handling is necessary (revenue or petty cash) • Review procedures for handling and verifying petty cash

Key Internal Control Points

Control Points	Suggestions
Other <ul style="list-style-type: none"> • Segregation of Responsibilities • Performance Evaluations • Travel Reimbursements 	<ul style="list-style-type: none"> • Purchasing / Receiving • Deposits / Billing • Purchasing / Equipment management • Purchasing / Reconciliation • Timely, Annually • Well documented • Constructive • Ensure no duplication through different units • Support is adequate and complete • Supported with original documentation only

MAINSTREAM UNIVERSITY BUSINESS CYCLES

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- A. Revenue Control Environment
- B. Cash Receipts Control Environment
- C. Accounts Receivable Control Environment
- D. Gift Control Environment
- E. Sponsored Program Control Environment
- F. Purchasing Control Environment
- G. Expenditure Control Environment
- H. P-Card / T-Card Issues
- I. Personnel and Payroll Control Environment
- J. Moveable Equipment Control Environment
- K. Inventory Control Environment
- L. Budget Control Environment
- M. Information Security Control Environment

A. Revenue Control Environment

- Adequate method for accumulating revenue, properly classifying the nature and source
- Timely processing of revenue transactions
- Adequate segregation of duties, including reconciliation of revenue amounts to supporting agreements or sales documents
- Monitoring, identification, reporting of trends or anomalies
- Pricing reviews and budgeting for activities which generate revenues in accordance with Legislative Audit Commission Guidelines and University policies
- Review and identification of tax reporting requirements
- Revenue contracts are compliant with policy; process to ensure related billing is appropriately controlled

B. Cash Receipts Control Environment

- Issuance of, and accounting for, a pre-numbered receipt
- Independent reconciliation of receipts to cash deposited, including credit card revenue
- Reconciliation and review of refunds
- Safeguarding of cash and checks
- Timeliness of deposits
- Petty cash and change funds access, disbursement, and reconciliation procedures comply with policies
- Necessity for use of petty cash and change funds is periodically reassessed
- Adequate segregation of duties between custody and record keeping
- Independent reconciliation of deposits
- Establishment and use of Detail Codes through GAR

C. Accounts Receivable Control Environment

- Adequate segregation of duties (receiving payments, updating A/R balances, and reconciling)
- Authorization from OBFS if not using Banner A/R
- Approval of credit extension policies and billing controls
- Monitoring system access
- Monthly reconciliation to Banner A/R
- Proper reporting of A/R to OBFS at year end for unit managed receivables (Year End Fact Sheet)
- Procedures for monitoring aging, unit collection efforts, and write-offs
- Reconciliation and review of refunds or credits

D. Gift Control Environment

- Classification and support (gift vs. grant and restricted vs. unrestricted)
- *Gift Transmittal Forms* and reporting to the Foundation
- Policies for acknowledgement letters by the Department
- Reviews of FACTS weekly gift reports
- Ongoing procedures to ensure compliance with donor intent
- Periodic evaluation of intent and status of each account / gift
- Monitoring of deficits and accumulations
- Preventing commingling of gift funds
- Managing Conflicts of Interest involving gift funds – gift from employee forms
- Costs associated with development efforts are appropriately coded as development costs

E. Sponsored Program Control Environment

- Administrators have appropriate training and are familiar with: University grants policy, federal regulations, terms and conditions specific to individual projects, and other applicable award-specific requirements
- Initial project budget is realistic and well considered
- Funds are used only for the applicable project and documentation is adequate to support allowability and allocability of charges to the project
- Expenditures are reviewed for allowability, allocability, and adequate funding prior to undertaking a transaction
- Compliance with technical portions of agreements
- Adequate procedures to identify and report cost sharing
- Subrecipient monitoring
- Deficit monitoring and follow-up
- Unusual transactions are identified, questioned, and adequately explained
- Effort: consistent with time spent, appropriately reviewed and reported; cost-sharing commitments appropriately handled
- Timely closeout

F. Purchasing Control Environment

- Processes for review of adequate funding prior to initiation of purchase
- Processes for review of transactions for allowability
- Documentation supports purpose, costs, and approval
- Segregation of duties between approving, negotiating, and reconciling
- Approval authority is in line with organizational authority
- Review and identification of stringing transactions
- Independent verification of goods received
- Proper approval of contracts
- Conflict of Interest: communication – identification – integration of necessary awareness into administrative / business roles
- Procedures to outline compliance terms for agreements and monitor
- Adequate knowledge and compliance with UI policies
- Work is started only after obtaining an executed contract
- Periodic review of procurement methodology: optimal use of iBuy, SPO, PCard

G. Expenditure Control Environment

- Adequate segregation of duties
- Approvals and delegations of approval authority are documented and reviewed periodically
- Expenditures are reviewed for allowability and availability of funds prior to payment
- Reconciliation to supporting documentation is timely
- Procedures are designed to review expenditures for compliance with contracts and UI policies, laws, etc
- Telecommunication expenditures are reviewed
- Communication and awareness of sales tax issues
- Individuals responsible for expenditure processes are aware of conflict of interest disclosures, including highlighting conflicts that exist within the purchasing function

H. T-Card and P-Card Issues

Special considerations for P-Card or T-Card controls include:

- What does the reconciler really do?
 - CFOAPAL, business purpose, funding, policies, appropriateness
 - For T-Card, reconciliation is considered to be attaching the T-Card transaction to an ER and submitting it through TEM. From an internal control perspective in TEM, the manager approver and the charge code reviewer that handle reconciliation-related tasks.
- What constitutes an “original” receipt? (Form and detail)
- Who keeps the documentation?
- Common problems
 - Card sharing: P-Cards shared or retained in a “central” area
 - Account sharing (e.g., Amazon accounts, etc.)
 - Sales tax
 - Unreconciled transactions, T-Card: Unattached transactions
 - Timeliness of reconciliations, T-Card: Timeliness of attaching to a TEM reimbursement
 - Lack of independent verification of goods received
 - Stringing
 - Duplicate reimbursements (processing the same reimbursement twice, processing an expense paid by T-Card as a TEM reimbursement)
 - Lack of segregation of responsibilities

I. Personnel and Payroll Control Environment

- Documented authority
- Segregation of duties regarding appointments and time entry
- Timesheets are approved prior to payment
- Approved timesheets are not returned to the employee
- Management of Conflicts of Interest which involve direct supervision
- Monitoring benefit time usage, taking action when concerns arise
- Overtime pre-approval and monitoring
- Reconciliation of payroll detail to financial statements
- Timely performance reviews, reviews reflect pay increase actions taken
- Adequate termination procedures (access, safety, assets, etc...)
- Adequate documentation to support adjustments, lumps, and other non-standard pay changes
- Use of SIE's, lump sums, 0% appointments is subject to prior approval, repetitive use is monitored against appointment responsibilities

J. Moveable Equipment Control Environment

- Segregation of duties (custody, recording, verification)
- Tagging
- Equipment loan approval and forms
- Equipment monitoring
- Physical inventories are performed with review and evaluation of items not found
- Segregation of physical inventory from custodial responsibilities
- Reconciliation of equipment records to any internal databases or spreadsheets
- Disposal procedures are communicated and effective
- Equipment purchased with grant funds is maintained appropriately
- Additional focus on risk areas (high dollar, small size, easily convertible)

K. Inventory Control Environment

- Security is adequate
- Perpetual records are maintained
- Physical counts and reconciliations (yearly reporting on Year End Fact Sheets if periodic) are performed
- Purchasing controls are documented
- Segregation of duties (ordering, receipt, recording, inventory) is adequate
- Cut-off procedures are reviewed every year for exceptions or new issues
- Management review and analysis of inventory items, turnover, amounts, usage, shortages, overages, exceptions, etc.

L. Budget Control Environment

- Financial reporting compares budget-to-actual on a level detailed enough to provide adequate oversight and is reviewed by the unit leadership and individual responsible parties
- Timely financial reconciliations are reviewed by individuals with adequate knowledge of the business unit
- Identification and resolution of inappropriate or inaccurate transactions
- Segregation of duties between reconciliations and processing
- Deficit review, follow-up, and reporting of action (reduction plans)
- Unit policies established and communicated
- Applicable staff and departmental faculty input in budgeting
- Consistent follow up on noted variations identified in reporting
- Reconciliation (to Banner) and evaluation of shadow systems, including whether they are currently needed
- Validation of reporting out of the data warehouse
- Mechanism to track commitments

M. Information Security Control Environment

- Passwords must not be shared and must meet the definition of a strong password available on the [CIO website](#)
- Back up critical data and store in an alternate location (not in the same building as production data and not at a residence)
- Business Continuity / Disaster Recovery plan: create, document and test
- Maintain user and system documentation for unique local applications/systems
- Classify and secure data according to the [Information Security Policy](#)
- **NO** SSN storage on departmental computing systems (exceptions must be approved by the [Office of Privacy and Information Assurance](#))
- Physically and environmentally secure facilities for storage of IT equipment
- Consider partnering with other units, departments, colleges, and organizations with similar IT requirements for increased efficiencies
- If your unit stores or processes credit card information, contact the Treasury Operations division of OBFS
- Ensure compliance with the [Policy on Software Piracy](#)
- Other Resources:
 - [CIO Policies](#)
 - [Standards and Guidelines](#)

References

- <http://www.obfs.uillinois.edu/>
OBFS homepage
- <http://www.obfs.uillinois.edu/bfpp/>
OBFS Policy Manual
§9 Audits and Internal Control - Redesigned
§19 Business Systems Access and Security - Redesigned
- <http://www.vpaa.uillinois.edu/policies/?bch=0>
University-Wide Policies
- <http://www.ssn.uillinois.edu/>
Social Security Number Policy
Social Security Number Remediation Program: <http://www.cites.illinois.edu/ssnprogram/>
- <http://www.cam.illinois.edu/v/V-C-15.htm>
Building Emergency Action and Business Continuity Plans
- <http://www.cio.illinois.edu/policies/index.html>
CIO Website
- <http://www.cites.illinois.edu/security/>
Office of Privacy and Information Assurance
- http://www.ilga.gov/commission/lac/lac_home.html
LAC Guidelines

In The End...

- What is the tone or attitude regarding controls in my unit?
- Does it make sense? Is it working?
- Are control activities well planned (e.g., segregation, approvals, accuracy, completeness, security, etc)?
- Is communication in place? Best information in the right hands?
- Are my critical risks appropriately mitigated?

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