

Link 2016

Internal Control Concepts and Tips for the
New Business Manager



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LEARNING & LABOR

Agenda

- Internal Controls
- Tips for success
- Fraud



Internal Control is a Process...

- Effectiveness and efficiency of operations
 - Reliability of reporting
 - Compliance with laws and regulations
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- ✓ It's not static
 - ✓ It's effected by people
 - ✓ Provides only reasonable assurance



Internal Controls: Process

- Different types of controls can be designed to work at varying points within **operational**, financial, **governance**, or compliance processes
- Components:
 - ✧ Control Environment
 - ✧ Risk Assessment
 - ✧ Monitoring
 - ✧ Control Activities
 - ✧ Information and Communication

Goal: Reasonable assurance



Types of Internal Controls

- Directive - Policies, communications, reminders
- Preventive - Approvals, TEM date checks, spending limits
- Detective – Reconciliations, Analytics
- Corrective – Repayment, transfers off grant funds, new controls



*Compensating * Mitigating*

What is Risk Assessment?

- Identification of risk factors
 - External factors (e.g., new systems, economic changes, rules and regulations)
 - Internal factors (e.g., new personnel, low morale, short staffing)
- Risk Analysis
 - Estimating the significance of the risk (e.g., dollars, reputation)
 - Estimating the likelihood of occurrence
- Assessing options for controls
 - Differing types of controls (e.g., preventive, detective)
 - Resource availability
 - Cost



What To Look For

- Top level performance monitoring
- Direct functional or activity management
- Data processing controls
- Physical controls
- Performance indicators
- Segregation of duties



Limitations of Internal Controls

- Judgment
- Breakdowns
- Management override
- Collusion
- Cost versus benefits



Most Common Basic Control Weaknesses

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



Cash Segregation

Scenario A – Bought magazine

- Administrative Assistant – receives the cash and counts it, runs a tape, provides cash and tape to the Accountant I
- Accountant I – prepares the deposit slip compares to the tape, takes the deposit slip and cash to cashiering, provides the deposit slip to Business manager
- Business manager reconciles the Banner statement to the deposit slip



Cash Segregation

Scenario B - Sale of Widget

- Administrative Assistant – Records the sale on the register, receives cash, creates a deposit, takes the deposit to Cashiering, provides the deposit slip to the Accountant I, provides a report to the operations manager of cash received
- Accountant I – Reconciles the deposit slip to Banner
- Operations manager – reviews the report of cash to operations data



Cash Segregation

Scenario C - Sale of Sample

- Administrative Assistant – Records the sale on the register, receives cash, creates a deposit, takes the deposit to Cashiering, provides the deposit slip and the report of samples sold (from the lab) to the Business Manager.
- Business Manager – Reconciles the deposit slip, samples sold report, and Banner



Segregation

- Critical review of permissions (what *can* one do) as well as actual job responsibilities (what does one *actually* do)
- Consider operational responsibilities as well as financial process responsibilities

- Overrides are flags – defeats good segregation



Reconciliations

- Revenue completeness
 - Against source data or information
 - According to contractual expectations
 - Comparison to expectations
 - Tie to rate evaluations
- Financial statement review
 - Completeness
 - Comparison to expectations
 - Investigation of variances from expectations



Other Repeat Control Weaknesses

- Self-supporting operations with no rates
- Service in excess and lumps processed/approved after service
- Telecommuting or remote workers without agreements and tax considerations
- Academic Hourly employees employed beyond intermittent and temporary
- Financial report to the unit leader is not



sufficient

Successful Business Officers

- Prioritize training for themselves and their staff
- Embraced and aggressively use business objects or other effective electronic management and reporting tools
- Developed a network of resources with varied participants
- Often seek advice and perspectives and create a culture of questioning
- Confidence to challenge a decision/action they feel is not correct, unethical, or inefficient and receive feedback on decisions with open minds
- Effectively utilize their resources including unit heads, department leaders, OBFS leader, audit, ethics, etc...
- Selective delegation of roles to ensure that they have a balanced handle on the forest and the trees
- Recognize the importance of the control environment
- Work carefully to craft and/or create a system that provides for one-on-one communications with faculty for effective “training”.



Most Common Fraud Areas

- Expenditure reimbursement (arranged travel, TEM)
- Equipment
- Cash (incoming, petty cash, and change funds)
- Payroll (time, hourly, vacation, and sick leave)
- P-Card/T-Card



Fraud Diamond



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Beyond the Fraud Triangle, Enhancing Deterrence of Economic Crimes, Jack W. Dorminey, A. Scott Fleming, Mary-Jo Kranacher, Richard A. Riley Jr, Association Fraud Magazine, September/October 2011

Time Clocks Aren't Real

- Civil Service Employees (multiple were involved)
- Shift work including nights
- Used time clocks for clocking in and out
- Altered their timecards
 - Instructions on how to reset the time
 - Keys for time clocks not secured
 - Keys for time clocks can be purchased on-line via Staples, Office Max, etc.. 24/7
- No validation that work was being performed by a supervisor responsible
- Confusion over who was really the supervisor given the swing nature of the shift work
- Complaints not taken seriously

Tips:

- ✓ Periodic validation of work including swing shifts
- ✓ Set and accountable supervisor
- ✓ Knowledge that timeclocks are alterable – consider other checks
- ✓ Address complaints timely and seriously



A Case of Collusion

- Supervisor and a staff
- Neither working full time, but they covered for each other
- Goods for resale or use in production was never inventoried, process wasn't segregated (physical, ordering, receiving), was not accurate
- No segregation in purchasing/receiving processes
- Productivity in terms of widgets produced to hours worked was not reviewed
- Frequent complaints, not fully investigated

Tips:

- ✓ Segregation of duties
- ✓ Annual review of productivity to industry, history, and reasonableness
- ✓ Reconciliation
- ✓ Independent inventory
- ✓ Take complaints seriously



The Supply Chain

- Poor record keeping - no records of inventory balances, ins, and outs maintained
- Segregation of duties in the “official” purchase of toner existed, but not in the actual person who put the order in to the business office, received the goods, controlled the inventory, and made the replacements
- Volume of purchasing increased every year
- Use of a common departmental account where activity was more easily buried

Tips:

- ✓ Segregation of duties – “no, really”
- ✓ Reconciliation process - require “owner” verification of need be documented and supplied as part of purchase documentation
- ✓ Physical inventory
- ✓ Analytical review of purchases and usage



Where are the Assets

- Director of a unit
- Negotiated and controlled asset trades and provided excel support for trades
- Overrode controls regarding physical asset verification by the person controlling FABweb
- Designed a system where two individuals had roles over assets but they never reconciled and each had a piece of the information
- Included new and existing assets
- Negotiate and controlled all sponsorships
- Double dipped with car pool (mileage and University car)

Tips:

- ✓ Segregation of duties
- ✓ Trades should be supported by outside, third party, documentation
- ✓ Reconciliation should be knowledgeable
- ✓ The independent physical asset verification should be used to update FABweb
- ✓ Sponsorships should all have formal contracts and be appropriately routed for signature/filing



The Small Shop Syndrome

- Employee was the Assistant to the Head unit with small number of staff
- Department authorization for transactions through other University store operations were forged
- P-Card transactions were reconciled with a receipt but the appropriateness of the transaction was not questioned
- Employee was responsible for purchasing, maintaining the financial records, property accounting contact and reviewer, and reporting to the Head
- Red flags were observed and personnel performance issues were noted

Tips:

- ✓ Segregation of duties
- ✓ Reconciliation should be meaningful
- ✓ Override of controls if supervisory position starts performing detailed functions (e.g., purchasing)
- ✓ Observed red flags should be reported
- ✓ Monitor transactions from other internal store operations



What's My Action Plan

- Understand Policy
- OBFS Whistleblower Policy
 - Duty to report
 - Protects employees who come forward

- Contact authorities
 - University Ethics
 - Office of University Audits
 - University Police
 - Legal Counsel

We work together

