Internal Control Awareness: Tips for Improving Business Practices

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Agenda

- Understand the value of internal controls.
- Learn some basic principles and “best practices.”
- Learn how to report questionable activity.
Why Internal Controls are Important

Internal control activities are business practices that are put in place for the following purposes:

- To improve the efficiency and effectiveness of business operations.
- To ensure financial information is reliable.
- To ensure compliance with applicable laws and regulations.
- To safeguard University assets.
- To help the University achieve its goals and objectives.
How You Can Contribute

Every employee can help by doing the following:

- Take a critical look at the business practices in your department.
- Ask questions about practices that you think could be improved.
- Suggest solutions whenever possible.

Strong internal controls are everyone’s responsibility.
Introduction to Internal Controls

BASIC INTERNAL CONTROL PRINCIPLES

BEST PRACTICES
# Preventative vs. Detective Controls

<table>
<thead>
<tr>
<th>Preventative Controls</th>
<th>Detective Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies and Procedures</td>
<td>Review of transactions</td>
</tr>
<tr>
<td>Segregation of duties</td>
<td>Physical inventories</td>
</tr>
<tr>
<td>Physical Security</td>
<td>Monitoring by management</td>
</tr>
<tr>
<td>Data Security</td>
<td>Audits</td>
</tr>
</tbody>
</table>

Preventative controls reduce the need for detective controls. Preventing problems is much easier than finding and correcting problems.

The goal of having strong internal controls is to minimize the risk that unwanted situations will happen (such as fines or negative publicity).
Policies and Procedures

Internal Control Activity:
- Each department should have documented policies and procedures.

Example:
- The process for maintaining and reconciling a petty cash account should be documented, and responsibilities for each step in the process should be assigned.

Benefits:
- Ensure departmental procedures align with University policies and procedures.
- Either ensure that internal control activities are in place, or identify activities that can be put into place.
- Allow new hires to learn procedures more quickly.
Segregation of Duties

Internal Control Activity:
- No one employee should have complete control over any process.

Example:
- No one person should be able to make a purchase, approve the purchase, review the budget report that includes that purchase, and keep that purchase in their physical possession.

Benefit:
- Errors have a greater chance of being found.
- Assets are less likely to be misappropriated.
Physical Security

Internal Control Activity:
- Assets should be safeguarded and tracked.

Example:
- Inventories of small-value equipment (under $3,000) should be maintained, and locations should be updated as necessary.

Benefit:
- Assets are less likely to be misappropriated.
Data Security

**Internal Control Activity:**
- Access to confidential data should be limited as much as possible.

**Examples:**
- Student-related files should be kept in locked cabinets.
- Student and employee information that is sent between offices should reference 907 numbers instead of Social Security numbers.
- Check logs should be used to record checks instead of keeping copies of checks, so that routing numbers are not maintained in files.

**Benefits:**
- The risk of identity theft is decreased.
Fraud, Waste and Abuse

Intentional vs. Unintentional Actions

Definitions and Examples

How to File a Report
Internal controls decrease the risk of unwanted situations caused by either intentional or unintentional actions.

- **Intentional** – Strong internal controls can limit opportunities for stealing or falsifying documents.

- **Unintentional** – Strong internal controls can also limit the chance that careless mistakes will happen.
Definitions of Fraud, Waste, and Abuse

**Fraud** – An intentional act to deceive.

*Example*: *Falsifying travel reimbursements.*

**Waste** – A negligent act related to spending State funds inefficiently or without authorization.

*Example*: *Purchasing goods at inflated prices.*

**Abuse** – Improper use of State resources.

*Example*: *Receiving favors from vendors.*
Reporting to Your Supervisor

If you are aware of a situation that seems fraudulent or wasteful, you should report it to your supervisor immediately.

These situations may turn out to be unintentional, resulting from simple mistakes or a failure to understand University policies.

Your supervisor will usually be in the best position to ask the right questions and find out all the facts.
If you are uncomfortable reporting the situation to your supervisor for any reason, there are many other resources on campus (such as the Office of Human Resources or University Police).

If you feel that you need to remain anonymous, you can call the University’s Ethics Hotline.

Toll-free number: 877-516-3417

Link to file a report online: https://armstrong.alertline.com/gcs/welcome
University Policies

All employees should familiarize themselves with all applicable University policies and procedures.

Specific questions on any of these policies should be addressed directly to the office responsible for each policy.

Many policies are available from the following link:

http://www.armstrong.edu/Departments/university_policies
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