



# Internal Controls at the University of Illinois

---

Office of University Audits

# Presenters

- Lea Fox, Enterprise-wide Auditor
- Lataunia Green, MBA, Enterprise-wide Auditor
- Neal Crowley, CPA, CIA, CFE, MBA  
Director

# Goal of this presentation

- Give you the basic controls that you should have in place to ensure your business processes are adequately managed.
- Give you some simple tools to help you identify roadblocks and pitfalls that can prevent your unit from reaching its goals and objectives.

# What is Internal Control

- A process within an organization designed to provide **reasonable assurance**:
  1. That assets (including people) are safeguarded.
  2. That information is reliable, accurate and timely.
  3. Resources are used economically and efficiently.
  4. Transactions are compliant with policies, plans, procedures, laws, regulations, and contracts.
  5. That overall established objectives and goals are met.
- Intended to prevent errors or irregularities, identify problems, and ensure that corrective action is taken.

# Internal Control Categories



- Policies
- Procedures
- Authorizations and Approvals
- Verification, Reconciliation and Reviews
- Supervising and Monitoring
- Safeguarding of Assets (including personnel)
- Segregation of Duties

# 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.

# The Definition of Fraud

The willful intent to deceive, conceal  
or misrepresent.

# Fraud at UIC!

- P-cards
- Theft of property (supplies, equipment, etc.)
- Theft of cash
- Falsified Travel/Expense vouchers







**Report It!**



# *Business and Financial Policies and Procedures*

## *New! Section 9.5 –*

### **Reporting and Investigation of Fraud**

## **Employee and Management Responsibility: Your Supervisor (or other appropriate personnel)**

- Criminal – report to University Police
- Other
  - Ethics
  - H/R
  - Access & Equity
  - University Counsel
  - University Audits

# *Business and Financial Policies and Procedures*

## **Section 9.6 –**

### Disclosure of Wrongful Conduct and Protection from Reprisal

- **What is Wrongful Conduct?**
  - Serious violation of University Policy
  - Violation of applicable state and federal laws
  - Use of University property, resources or other authority for personal gain (or other non-University-related purpose)



# *Business and Financial Policies and Procedures*

## **Section 9.6 –**

### Disclosure of Wrongful Conduct and Protection from Reprisal



- Protects employees who -- in good faith -- disclose alleged wrongful conduct.
  - Encourages disclosure of serious breaches of conduct
  - Informs how to make disclosures
  - Protects from reprisal
  - Provides relief from those who feel they have suffered retaliatory acts

# University Audit's purpose is...

To assist all levels of administration in achieving efficiency & effectiveness of operations through independent reviews, analysis, and counsel.

## We do not...

- Have direct authority or responsibility over the activities reviewed.
- Develop procedures, prepare records or make management decisions.
- Relieve personnel from their assigned responsibilities through our reviews.

# Internal controls that you should have in place!





## Key Controls Cash Receipts



- Issuance and accounting for a prenumbered receipt
- Authorization, supporting documentation, propriety, approval of transactions and independent reconciliation of petty cash funds
- Safeguarding of cash and checks
- Independent reconciliation of deposits to Banner statements

# Key Controls

## Accounts Receivable

- Authorization from OBFS if not using University A/R
- Credit extension policies and billing controls
- System controls – who has access to what?
- Procedures for monitoring A/R aging
- Policies and procedures for collection efforts

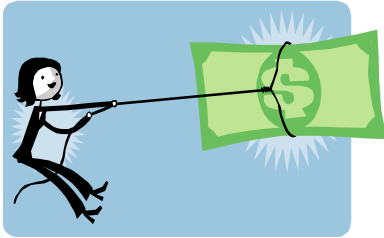




## Key Controls Gifts



- 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 reports

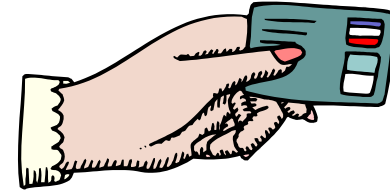


# Key Controls Expenditures

- Segregation of duties (originating, authorizing and review)
- Procedure to ensure compliance with travel and cash advance guidelines
- Telecom expenditures are reviewed
- Compliance with contract provisions
- Communication and awareness of sales tax issues



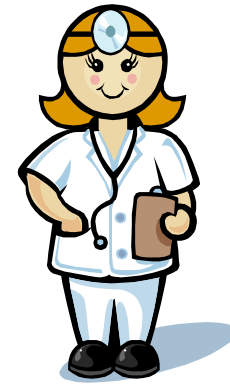
# Key Controls P-Cards



- Documenting and communicating authority/responsibility (P-Card system, \$ levels)
- Communication and enforcement of physical P-Card security
- Communication and enforcement of sales tax issues
- Communication, monitoring and issue resolution procedures for P-Card purchase compliance
- Procedures for ensuring compliance (e.g., three strikes, reduction of authority)



# Key Controls Personnel and Payroll



- Documented authority
- Segregation of duties regarding appointments and input into Banner
- Procedures to ensure time sheet are approved prior to payment
- Overtime pre-approval and monitoring
- Reconciliation of payroll
- Procedures to ensure performance reviews are completed



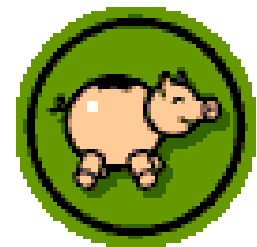
# Key Controls Revenue

- Proper authorization and documentation to establish the revenue generating activity
- Method for accumulating revenue for billing purposes
- Segregation of duties (sales, record keeping)
- Data analysis and review
- Procedures for pricing and budgeting
- Review and conclusion of tax issues
- Accumulation and deficit monitoring

*Business and Financial Policies and  
Procedures*  
**Section 5.12 –  
Revenue Generating Agreements**

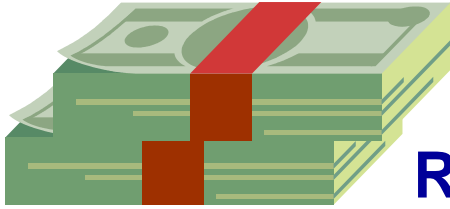
This policy provides information and contract templates related to Revenue Generating Agreements

Revenue Generating agreements are written contracts, signed by all parties, which cover University income producing or cost recovery activities.



# *Business and Financial Policies and Procedures*

## **Section 5.12 – Revenue Generating Agreements**



### Contract Templates for:

- **Services generating less than \$5,000**

Agreements may be executed by the unit head.

- **Service generating \$5,000 or more**

Agreements must be routed for approval by University Counsel and signature by the Comptroller and Secretary of the Board of Trustees.

# Key Controls

## Grants and Contracts



- Procedures for review and approval during the application process
- Expenditures are reviewed for allowability, classification, and adequate funding prior to payment
- Compliance with technical portions of agreements (i.e., disclaimers in publications, reporting requirements)
- Subgrantee monitoring
- PI expenditure monitoring and certification (Banner statement accuracy)
- Deficit monitoring and follow-up



# Key Controls

## Purchasing, Contracting, and Leasing

- Documented authority
- Review for allowability and adequate funding prior to initiation
- Independent verification of goods received
- Segregation of duties between approving/negotiating and reconciling
- Proper approval of contracts
- Procedures to ensure compliance with agreements



# *Business and Financial Policies and Procedures*

## **Highlights from Section 7 – Purchasing**

### Certain Purchases Must Be BID

- \$31,300 or over (goods and services this limit changes periodically);
- \$37,500 or over (construction); and
- \$20,000 or over (professional and artistic services)

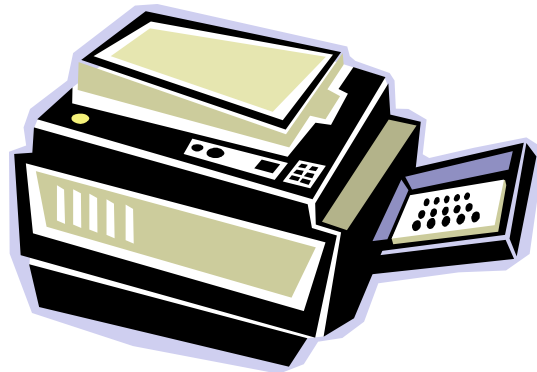




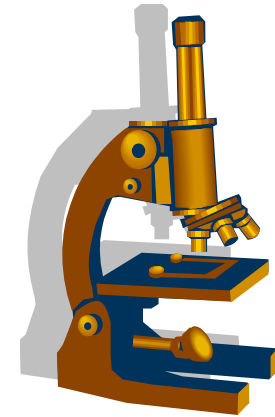
# Key Controls

## Moveable Equipment

- Segregation of duties (custody, recording and verification)
- Tagging
- Equipment loan approval and forms
- Equipment monitoring < \$2,500
  - Good business practice would suggest recording electronic equipment such as laptops that are valued less than \$2,500
- Physical inventories
- Reconciliation to Banner



# Key Controls Inventory



- Safeguarded
- Perpetual records maintained
- Physical counts and reconciliations
- Purchasing controls documented
- Segregation of duties (ordering, receipt, recording)
- Cut-off procedures
- Management review and analysis
- Completion of FACT Sheet to reflect resale of materials, supplies, merchandise, or inventorial items involved in the operations

# Key Controls

## Organization and Management, Budgeting, Accounting, and Reporting

- Monthly Banner reconciliations
- Segregation of duties
- Deficit review and follow-up
- Unit policies established
- Communication method for policies
- Staff and departmental faculty input in budgeting
- Variation reporting and follow-up
- Conflict of interest administration
- Periodic measurement to assess status of meeting the strategic plan



# Key Controls Information Technology



- Safeguarding passwords
- Documented disaster recovery plan
- Data backup and storage - offsite
- Classification of confidential data
- Compliance with University's software piracy policy
- Maintain user documentation for local applications

# I am being audited!

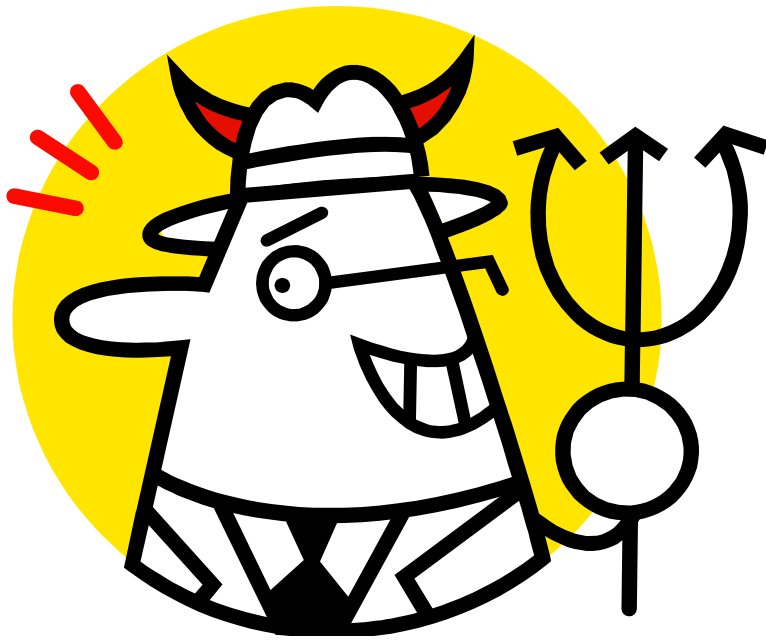


# What is risk?

- Any event or circumstance that could affect an organization from meeting its goals, objectives, and activities.
- We use 5 categories:
  - Operational
  - Financial
  - Compliance
  - Reputation
  - Life-safety



# Operational Risks



- Internal fraud.
- External fraud.
- Workplace safety.
- Damage to physical assets.
- Business disruptions and system failures.
- Employment practices

# Financial Risk



- Failure to validate account balances.
- Lack of communication between financial management and operating units.
- Lack of training for financial system users.
- Improper/illegal contracting and/or contract management.

# Compliance Risk

- Lack of compliance oversight.
- Lack of compliance with Federal, State, and other regulations and laws.
- Untimely deliverables.
- Unallowable costs charged to grants.
- Inaccurate or insufficient effort reporting.
- Contracts or contracting process not in compliance with laws or regulations.
- Medicare/Medicaid over/under billing.
- Quality of care (Hospital & Clinics).
- HIPAA violations.
- Deficit Reduction Act.
- False Claims Act.

# Reputation Risk



- Legislative interests.
- Negative impact with local community.
- Negative incident or relationship with major donor.
- Lack of effective marketing.
- Negative public perception of the institution.
- State of Illinois Auditor General published annual reports.

# Life-Safety Risk

- Accident involving biohazards or other hazardous materials.
- Untimely or inappropriate response to accidents and other incidents.
- Inadequate training and safety procedures.
- Personal injury or death.



# How do you know where risks exist?

- You ask management.
- You ask your peers.
- You monitor the published audit plans and programs of the Office of Inspector General of Federal agencies and departments, industry hot topics, and anywhere else.
- You use data analytics (Business Objects)

# Management Interviews

- Ask your Dean/Department Head/Chair what they perceive as impediments to their operation.
- Ask your co-workers/staff and colleagues what are the challenges facing them in accomplishing their jobs.
- Compile the results and rank the risks as Low, Medium, or High.

# Peers

- Sister units in the same College.
- Similar units in another College.
- Colleagues from another higher education institution.
- Colleagues or contacts from NACUBO or other professional organizations.
- Any local Chapters of professional associations.





# Data Analytics



- Periodically monitor your unit's expenditures against budget.
- Ask why there is a variance from budget?
- Decision Support Query Clearinghouse.
- These reports can be modified to meet user needs.

# Published Hot Areas and OIG Audit Plans

- HHS OIG publishes their plan in the Fall.
- NSF, NIH, DoD leak their areas of audit interest.
- Office of Management and Budget.
- State Auditor General
- Pending Legislation (Federal, State, & Local).
- Chronicle of Higher Education.
- Council on Governmental Relations.
- Hot topics from NACUBO or other professional organizations.

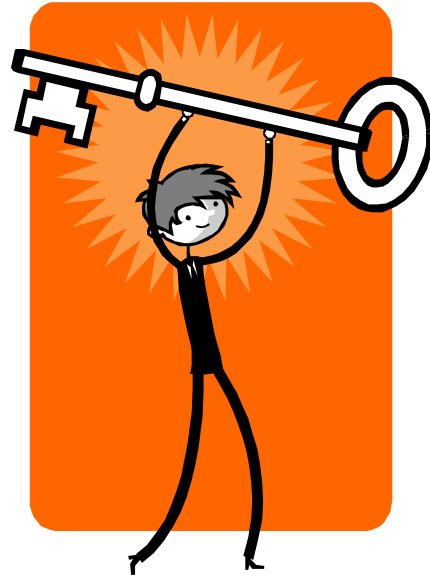
# Develop a Plan



- Risks are prioritized and write a comprehensive plan to address identified risks. One at a time.
- Allow a part of the plan for special projects and management requests that may take you off course.
- Evaluate your accomplishments.

# Greatest Challenge is Environment

- A decentralized organization with over a 1000 units having the budget and authority to do basically whatever they want to do.



# Questions



# Links

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

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

<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/>