

# Internal Controls for Deans, Directors and Chairs

**Presented by:**

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# Agenda

- Introduction to Internal Controls
- Responsibilities
- What can go wrong
- Cost/Benefit
- Internal Control examples
- Internal Control tools
- Statistics
- Other training

## What are Internal Controls?

Internal Controls are a process, affected by an organization's board of directors, management and other personnel, designed to provide **reasonable** assurance regarding the achievement of objectives.

# What are Internal Controls?

Internal control objectives:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

## Internal Controls at U

- University is \$2.5 billion enterprise
- 31,000 students
- 23,000 employees
- 27,000 Hospital and Clinics admissions
- 970,000 outpatient visits
- Over 300 organizational units (colleges, departments, divisions, etc.)
- Over 2,000 account executives and principal investigators
- Updated 2011

## Internal Controls at U

- Maintaining good accountability and control in such a large, diverse, decentralized, organization is complex and challenging
- U of Utah takes responsibility of internal controls seriously and devotes major effort to accomplish

## Expectations...Tone at the Top

“Acting responsibly and doing the right thing are central to our future success at the University of Utah; and I look forward to working together, and demonstrating to each other and our many partners, our shared commitment to making collective stewardship and ethical behavior part of our everyday activity”.

Former Pres. Michael K. Young

## Internal Control-Vice Presidents

Are appointed by the President to provide oversight and direction to senior administrators responsible for major areas such:

- Colleges
- Departments
- Auxiliary Operations
- Support Services



## Internal Controls-Deans, Directors, & Chairs

- Are responsible for designing and implementing control systems for the units under them.
- Are responsible for executing institution-wide control policies and procedures and those originating from their Vice President's office.
- These responsibilities should come with the authority needed to see that controls are implemented

## Internal Controls-All Employees

- Read and understand the policies and procedures which affect their jobs.
- Comply with the controls established to protect both employee and University.
- Point out control weaknesses to supervisor or manager.
- Ask Questions!

## University Foundation of Internal Controls

- Management establishes and maintains internal control
- Official Policy and Procedure Manual-All
- Policy 3-018-Internal Controls
- Official communication posted to web, i.e. guidelines, rules etc.
- Ongoing training
- Employee education, training
- Internal Audit

## Policy 3-003: Authorizations and Approvals Required for Financial Transactions

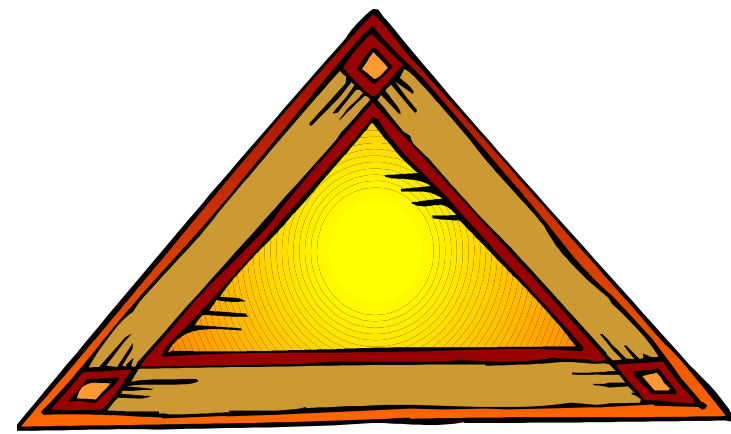
- A key element in the University's system for maintaining control is review and approval of the monthly accounting statements.

Approval indicates agreement that:

- Transactions are accurate, or that necessary corrections are in process.
- Expenditures are reasonable, necessary, and are for legitimate University business.
- Expenditures and other charges are allowable and consistent with donor or sponsor restrictions, policy, laws & regulations.
- Supporting documentation exists and is retained by the department for possible review by internal or external auditors.

# The fraud triangle

**Opportunity**



**Pressure**

**Rationalization**

## What can go wrong?

- U Retail (2002) - \$142,700  
Employee manipulated accounting records to allow theft of cash. Convicted of 2nd degree felony.
- U Dept (2002) - \$42,647  
Employee used pcard to buy unauthorized items. Convicted of 2nd degree felony.
- U College (2003) - \$12,082  
Employee used university funds to buy personal items. Accounts used were not reviewed by the PI.

## What can go wrong (cont'd)

- UUHSC Dept (2003) - \$73,129  
Employee manipulated records allowing misappropriation of patient refunds. Convicted of 2nd degree felony.
- UUHSC Cashier ( 2003) - \$32,065  
Employee kited checks. Convicted of 2nd and 3rd degree felonies.
- UUHSC Dept (2004) - \$240,000  
Employee used approximately 8 different fraud schemes. Convicted of 2nd degree felony.



## What can go wrong (cont'd)

- U Dept (2011) - \$25,600  
Employee stole cash receipts
- UUHC (2009) - \$443,200  
Employee stole cash receipts
- U Dept (2009) - \$221,859  
Employee fabricated documentation, forged signatures & created pmts for benefit of self & spouse. Employee prosecuted.

## What went wrong?

- In each of these cases, poor or missing internal controls enabled the fraud to occur

## Internal Controls and assurance

- Internal controls provide reasonable assurance  
— not absolute assurance—  
regarding objectives

## Reasons internal controls cannot provide absolute assurance

- Cost/benefit realities
- Collusion among two or more people
- Faulty judgment
- External or internal changes without corresponding internal control changes
- Management override

Internal controls should be balanced with risk considerations

## Risk is the possibility that:

- Goals will not be achieved
- Operations are not effective or efficient
- Assets are lost
- Financial information is unreliable
- Laws, rules, regulations, policies-are not followed

## High Risks

- Public scandal
- Loss of assets, donors or grants
- Noncompliance penalties
- Loss of public trust
- Default on a project
- Decreased enrollment
- Injury to reputation

## Excessive Controls

- Increased bureaucracy
- Reduced productivity
- Increased complexity
- Increased cycle time
- Increase of non-value activities
- Actual financial costs of all of the above



## Key Internal Control Tools

- Strong internal control environment
- Authorization/approval processes
- Control over assets/records
- Monitoring
- Separation of duties

## Separation of Duties-examples

- Functions are divided so that no one person has control over all parts of transaction
- Separate initiating, authorizing, recording and reconciling
- Separate physical control of assets with recording, reconciling of assets

## Authorization-examples

- Signature or delegation should be limited to a “need to have” basis
- Personnel should understand what they are signing
- Computing resources should be authorized, restricted, password protected

## Control over assets, records-examples

- Periodic asset counts according to policy or more frequently
- Physical safeguards against theft and peril
- Proper authorization of purchases
- Investigation of discrepancies

## Monitoring-examples

- Focus on high risk areas
- Comparison of actual to budget
- Activity analysis for high risk accounts
- Review of management statements
- Sample and spot check routine type transactions

## Monitoring-examples (con't)

- Review payroll summaries
- Follow up on complaints, rumors, allegations
- Review travel supporting documentation
- Consider Internal Audit for high risk areas

# Strong Internal Control Environment

- Expectation from top management
- Competent personnel
- Personnel training
- Organizational communication
- Policy and procedural knowledge

## Your Overall Internal Control System

- Identify risks in your environment
- Identify control points
- Analyze potential exposures
- Focus on high risk exposures
- Design system to mitigate risks
- System should include separation of duties



## Red flags of fraud

- Unexplained variances
- Complaints, rumors, allegations
- Lack of reconciliations
- Missing reports/documents
- Employee won't take vacation, does it all
- Even amounts on checks/documents
- Documentation not original
- Use of exemptions on transactions

2008 Report to the Nation on Occupational Fraud and Abuse. Copyright 2008 by the Association of Certified Fraud Examiners, Inc.

- **Occupational fraudsters are generally first-time offenders.** Only 7% of fraud perpetrators had prior convictions and only 12% had been previously terminated by an employer for fraud-related conduct.

## 2008 Report to the Nation on Occupational Fraud and Abuse

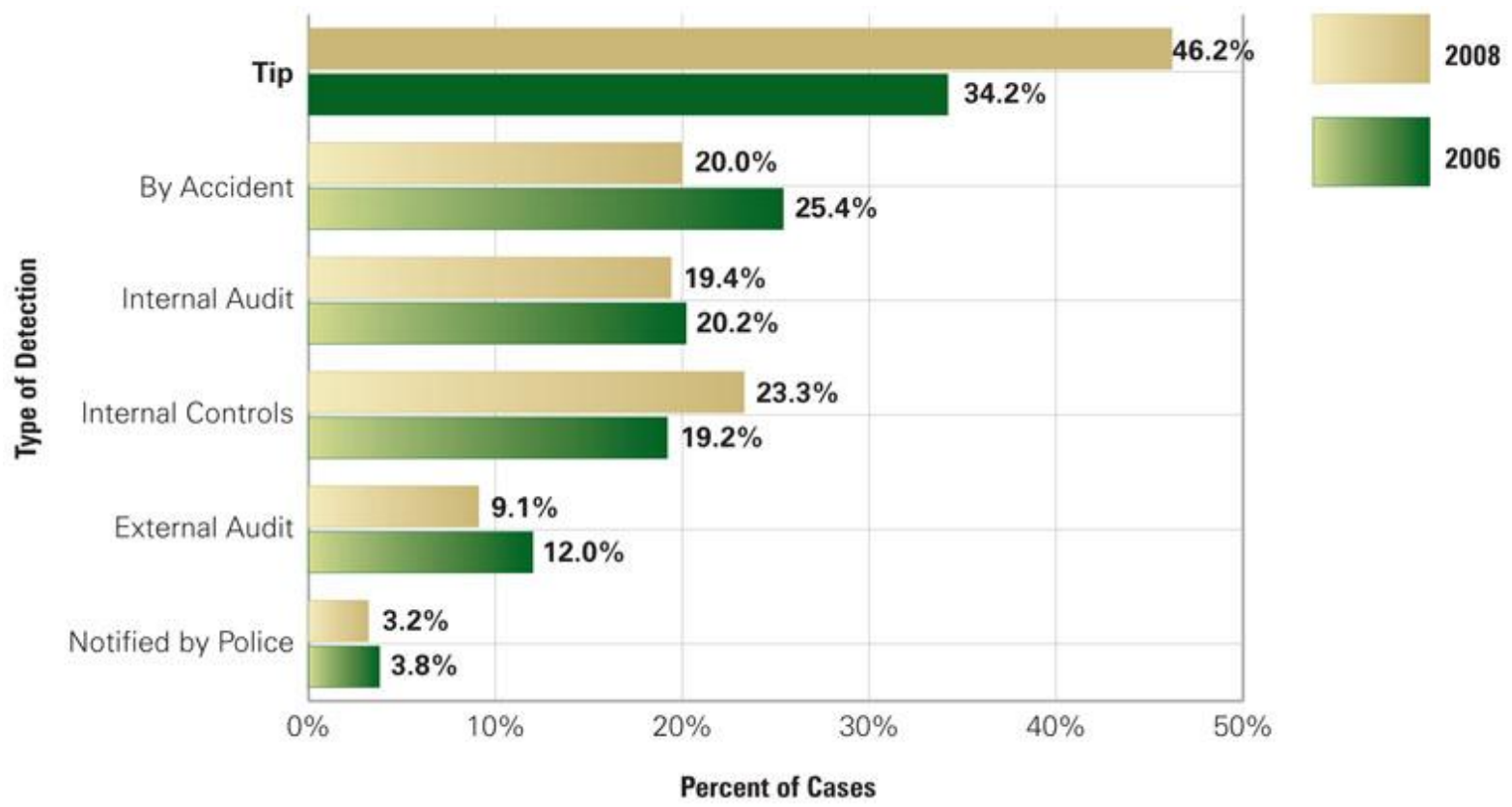
Fraud perpetrators often display behavioral traits that serve as indicators of possible illegal behavior.

## 2008 Report to the Nation on Occupational Fraud and Abuse

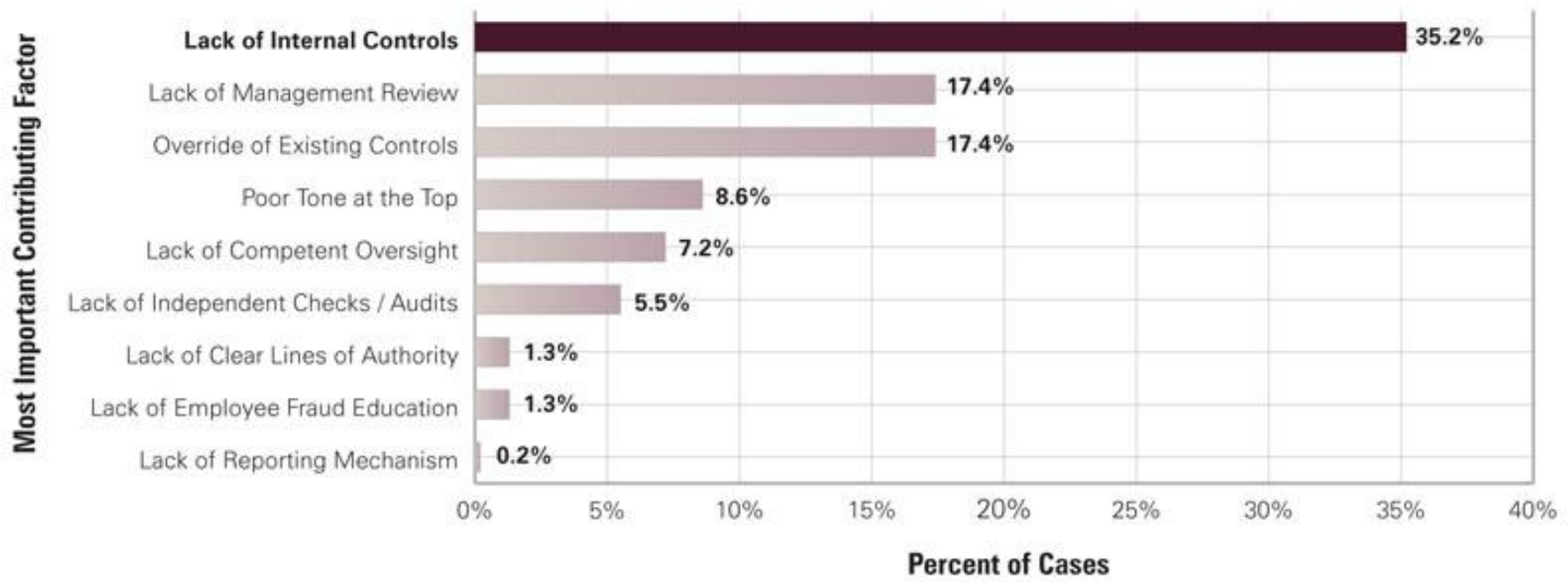
### Median Duration of Fraud Based on Victim Organization Type

Organization Type	Median Months to Detection
Government Agency	24
Not-for-Profit	24
Private Company	24
Publicly Traded Company	18

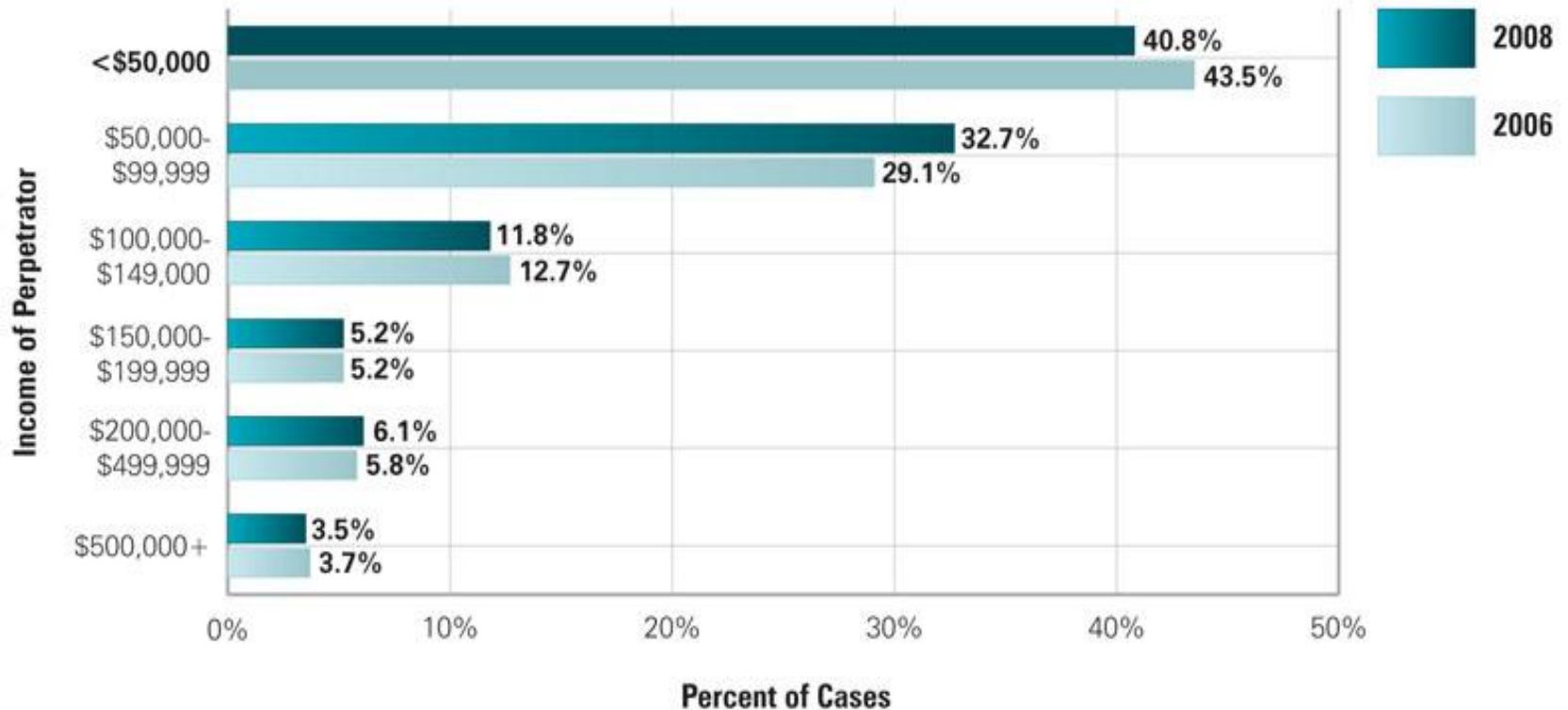
# 2008 Report to the Nation on Occupational Fraud and Abuse - How Fraud is Detected



# 2008 Report to the Nation on Occupational Fraud and Abuse **Primary** Internal Control Weakness Observed by **CFE**

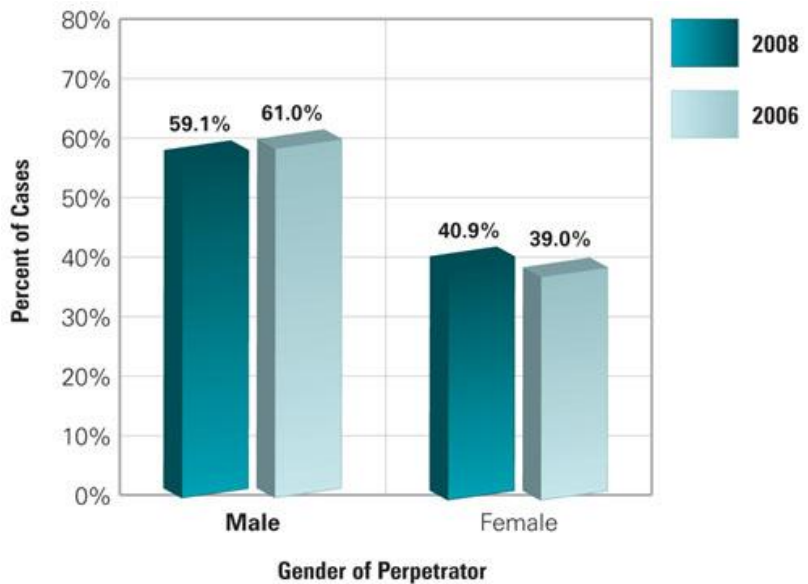


# 2008 Report to the Nation on Occupational Fraud and Abuse Annual Income of Perpetrator — Frequency

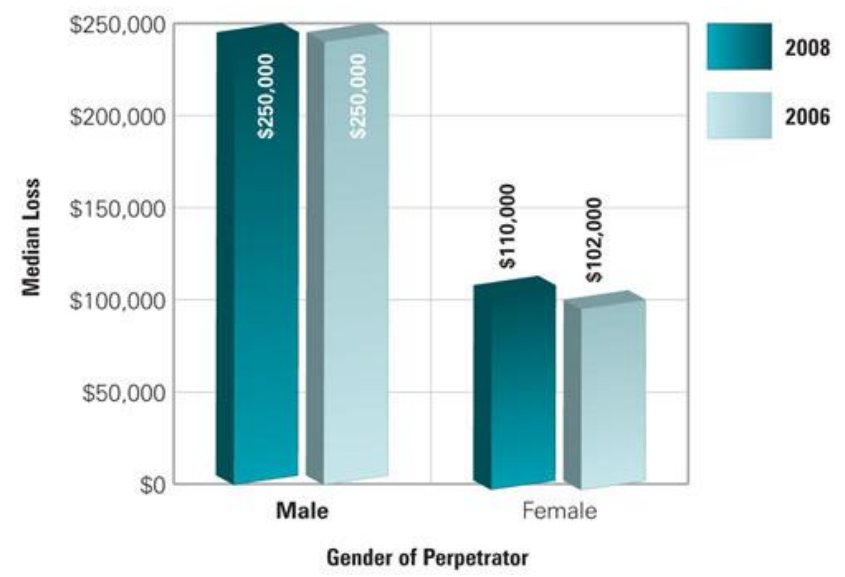


# 2008 Report to the Nation on Occupational Fraud and Abuse – The Perpetrators

## Gender of Perpetrator — Frequency

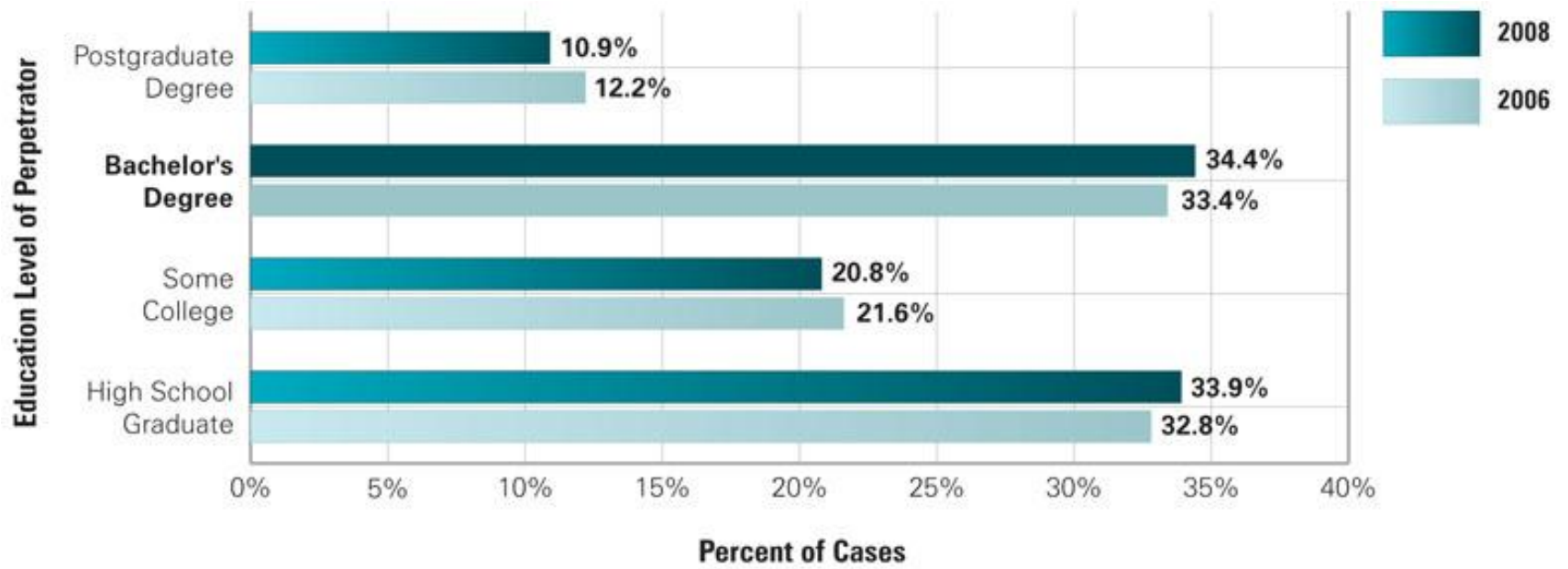


## Gender of Perpetrator — Median Loss





# 2008 Report to the Nation on Occupational Fraud and Abuse Education of Perpetrator — Frequency



## Suggested Additional Training

QUESTIONS?????

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