

## COMPTROLLER POLICY MANUAL

 <b>NORTHERN ARIZONA UNIVERSITY</b>	<b>POLICY: CMP 603</b>
	Section: 400 Disbursements
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	Responsible office: Comptroller
	Origination date: 01/01/2000
<b>Subject: Internal Controls</b>	Effective date: 01/01/2000
	Revision date: 03/20/2017

### PURPOSE

The purpose of this policy is to set minimum standards for internal control activities for University transactions.

### SOURCE

University policy, Arizona Board of Regents policy for Internal Control Responsibilities, [Chapter 6, Section 6-711](#), Arizona Board of Regents [Guidelines for the Implementation of ABOR 6-711 "Internal Controls Responsibilities"](#) [COSO](#) (Committee of Sponsoring Organizations of the Treadway Commission).

### BACKGROUND

Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

Internal control is a process. It is a means to an end, not an end in itself. The goal is reliable financial reporting, effective and efficient operations, and compliance with laws and regulations. Internal control is affected by people. It is not merely policy manuals and forms, but people's actions at every level of the organization.

Internal control activities are those specific policies and procedures that help ensure management directives are properly implemented. They include a wide range of activities that occur throughout the university, by supervisory and front-line personnel. This is not an all-inclusive list, but the following are some examples of common preventative control activities that will be further discussed:

- Segregation of Duties
- Approval
- Management Review
- Reconciliations
- Asset Security

When preventative controls fail, detective controls can be used to identify potential errors and problems. Best use of these controls is to gauge how effective your preventative controls are and strengthen them if possible:

- Reviewing financial statements for irregularities
- Reviewing procurement card statements for appropriateness, allowability and/or proper allocation
- Employing monitoring procedures, such as exception reports, analytical reviews and metrics monitoring.

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**POLICY**

**CMP 603: Internal Controls**

**SEGREGATION OF DUTIES EXPLANATION**

Segregation of duties is critical to effective internal control; it reduces the risk of both erroneous and inappropriate actions. Segregation of duties is a deterrent to fraud because it prevents collusion with another person to perpetrate a fraudulent act. Adequate segregation of duties reduces the likelihood that errors, intentional or unintentional, will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed.

Specific examples of segregation of duties are as follows. This list is not all inclusive.

- The person who requisitions the purchase of goods or services is not the person who approves the purchase.
- The person who approves the purchase of goods or services is not able to obtain custody of the check that pays for the transaction.
- The person who maintains and reconciles the accounting records is not able to obtain custody of the check that pays for the transaction.
- The person who opens the mail and prepares a listing of checks received is not the person who makes the deposit.
- The person who opens the mail and prepares a listing of checks received is not the person who maintains the accounts receivable records.

**SEGREGATION OF DUTIES POLICY**

It is required that the approval function, the accounting/reconciling function, and the asset custody function be separated among employees.

When these functions cannot be separated, generally due to small department size, the Compliance, Controls and Business Services Office must be contacted for consultation and development of compensating control activities.

At least two people must be involved in a transaction stream.

- Initiate the transaction
- Approve the transaction
- Record the transaction
- Reconcile balances
- Handle assets
- Review reports

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### APPROVAL EXPLANATION

Approval of a transaction means that the approver has reviewed the supporting documentation and is satisfied that the transaction is appropriate, accurate and complies with applicable laws, regulations, policies, and procedures.

Approval may be written and evidenced via a signature on a document which indicates that the transaction has been reviewed and approved. Approval may also be electronic as evidenced by a click to approve a transaction in a system. Regardless of the mode, approval must be done by someone who has approval authority. Approval authority can be inherent in a person's role within the organization if they are responsible for the unit's activities. It may also be that they have been granted approval authority in a transactional system.

### APPROVAL POLICY

Approvers must review supporting documentation, question unusual items, and make sure that necessary information is present to justify the transaction before they approve the transaction.

Signing blank forms is not allowed. Use of a signature stamp is not allowed.

Under no circumstance may an approver tell someone that they could sign the approver's name on behalf of the approver. Similarly, under no circumstance may an approver with electronic approval authority share his/her password with another person.

To ensure proper segregation of duties, the person initiating a transaction must not be the person who approves the transaction.

System privileges must be modified or deleted, as appropriate, immediately upon the transfer or termination of employees in order to protect the integrity of the internal control system. Examples of actions to take upon transfer or termination of an employee are return of keys to buildings/offices, return procurement card, notification to the Comptroller's Office of change in signature authority, deletion of computer access privileges.

### MANAGEMENT REVIEW EXPLANATION

Reviewing reports, statements, reconciliations, and other information by management is an important control activity; management must review such information for consistency and reasonableness. Reviews provide a basis for detecting problems.

Management is defined as a Dean, Director, Chair, Provost, or other appropriate NAU employee who has responsibility for a unit's activities.

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### MANAGEMENT REVIEW POLICY

Management will compare information about current performance to budgets, forecasts, prior periods or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions which require follow-up. Management's review of reports, statements, reconciliations, and other information must be documented as well as the resolution of items noted for follow-up. The simplest evidence of this review is signed initials and date of review

### RECONCILIATION EXPLANATION

Broadly defined, a reconciliation is a comparison of different sets of data to one another, identifying and investigating differences, and taking corrective action, when necessary, to resolve differences.

Reconciling monthly financial reports (e.g., Transaction Detail/Summary Reports) to file copies of supporting documentation or departmental accounting records is an example of reconciling one set of data to another. This control activity helps to ensure the accuracy and completeness of transactions that have been charged to a department's accounts. To ensure proper segregation of duties, the person who approves transactions or handles cash receipts must not be the person who performs the reconciliation.

A critical element of the reconciliation process is to resolve differences not just to note differences and do nothing about it.

### RECONCILIATION POLICY

To ensure proper segregation of duties, the person who approves transactions or handles cash receipts must not be the person who performs the reconciliation.

Differences must be identified, investigated, and explained - corrective action must be taken. If expenditure is incorrectly charged to a department's account, then the approver must request a correcting journal entry; the reconciler must ascertain that the correcting journal entry was posted. Reconciliations must be documented and approved by management.

### ASSET SECURITY EXPLANATION

Liquid assets, assets with alternative uses, vital documents, critical systems, and confidential information must be safeguarded against unauthorized acquisition, use, or disposition. Typically, access controls are the best way to safeguard these assets. Examples of access controls are as follows: locked door, key pad system, card key system, locked filing cabinet, terminal lock, computer password, automatic callback for remote access, smart card, data encryption, etc.

An annual inventory where assets are verified against a list provided by Property Administration ensures that all assets that expected to be on hand are still accounted for.

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### ASSET SECURITY POLICY

Departments will maintain reasonable access controls, consistent with the type of asset.

Departments will comply with the [Physical Count](#) of Fixed Assets policy and procedure that is in place. Annually, the items must be physically counted by a person who is independent of the purchase, authorization and asset custody functions, and the counts must be compared to balances per the records provided by Property Administration. Missing items must be investigated, resolved, and analyzed for possible control deficiencies; records will be adjusted to physical counts if missing items are not located.

### OBJECTIVES AND COMPONENTS OF INTERNAL CONTROL

There are three categories of objectives, which allow organizations to focus on differing aspects of internal control:

- Operations – Refers to the effectiveness and efficiency of the organizations operations, including operations and financial performance goals and safeguarding assets against loss.
- Reporting – Relates to internal and external financial and non-financial reporting and may incorporate reliability, timeliness, transparency, and additional terms as set forth by regulators, recognized standard setters, or the entity’s policies.
- Compliance – Relates to adherence to laws and procedures to which the entity is subject.

Internal control consists of five interrelated components:

- Control Environment: Demonstrate a commitment to integrity and ethical values, implement oversight responsibility, establish structure, reporting lines, authority, and responsibility, demonstrate commitment to development and competence, enforcing accountability.
- Risk Assessment: Specific objectives with sufficient clarity and assessments of risk, identifies and analyzes risk, assess risks for potential fraud, identify and analyze significant change.
- Control Activities: Select and develop control activities to diminish risk, select and develop general controls over technology, deploy control activities through policies and procedure.
- Information and Communication: Generate and use relevant information, communicate internally, communicate externally.
- Monitoring: Selects, develops and conducts ongoing and/or separate evaluations, evaluate and communicate deficiencies in a timely manner.

### ASSISTANCE

The department of [Financial Controls, Analysis and Reporting](#) is available to assist departments with the interpretation of this policy as well as validation that reasonable controls are in place. Further, this department can be of assistance when considering non-traditional internal controls as well as with the development of compensating controls.