

Internal Controls

What are they?

Why should we care?

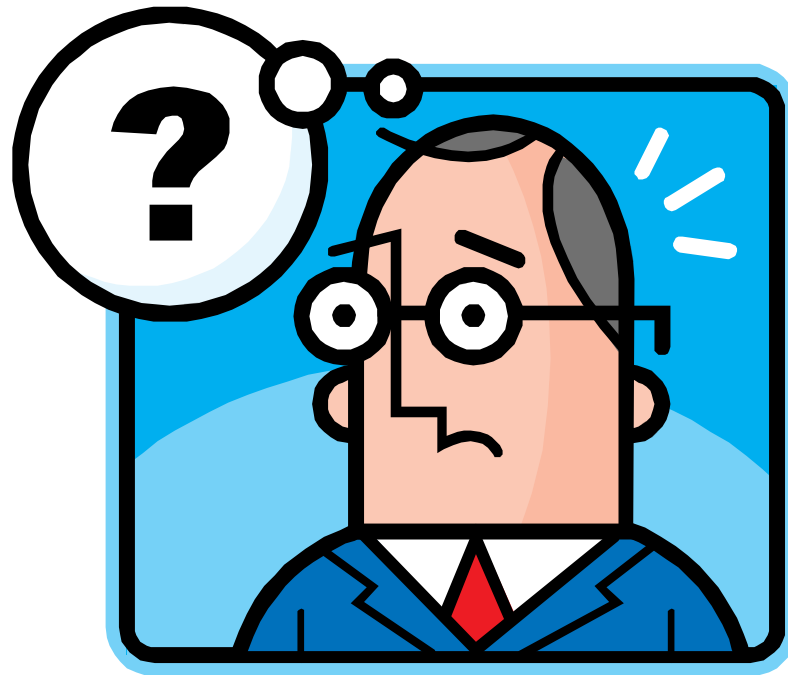


What is Internal Control?

Internal control is a process, designed by the Foundation's Board of Directors, Management, Institute Directors, and Business Office personnel to provide reasonable assurance about:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with policies, procedures, laws and regulations.
- Safeguarding against errors and fraud.
- Enhancing early detection of errors and fraud.

Want Some Examples?





Think About What YOU Do . . .

- You lock your home and your vehicle.
- You keep your ATM/debit card pin number separate from your card.
- You review bills and credit card statements before paying them.
- You don't leave blank checks or cash just lying around.



The Foundation's Internal Controls are Similar



- Offices, buildings and research labs are kept locked when unoccupied.
- Computer passwords are periodically changed and must not be saved by the computer or shared with anyone.
- Management reports and purchase charges are checked against source documents.
- Petty cash and checks are kept in secure storage.
- Authorizations are required for certain activities.



Internal Controls are Meant to:

- Protect assets.
- Ensure records are accurate.
- Prevent and identify errors and inappropriate transactions.
- Promote operational efficiency and eliminate waste.
- Encourage adherence to policies, procedures, laws and regulations.

*Internal Controls are Usually Either **PREVENTIVE** or **DETECTIVE***



Preventive - Let's stop an unwanted outcome before it happens.



Detective – Let's find the problem before it grows.



Examples of Preventive Controls

- Reading, understanding and applying policies and procedures to learn the right way to do things.
- Reviewing and approving purchase orders or requisitions to make sure they're appropriate *before* the purchase.
- Using computer passwords to stop unauthorized access.
- Review and **only** sign a document after you know it is accurate – don't rely on the next level of review to catch an issue.
- Segregating duties to ensure that one person does not have control over multiple steps within an approval process.



Examples of Detective Controls

- Reviewing petty cash accounts.
- Reviewing payroll reports or, on a personal level, your pay check or direct deposit slip.
- Comparing transactions on monthly reports to departmental source documents.
- Monitoring expenditures against budgeted amounts.
- Timely and thorough review and certification of Monthly Project Summary reports.



Why Don't They Always Work?

- Inadequate knowledge of policies or governing regulations. “I didn’t know that!”
- Inadequate segregation of duties. “We trust ‘A’ who does all of those things.” Remember, in general only people we trust can steal from us, we watch the others.
- Inappropriate access to assets. Passwords shared, offices left unlocked, cash not secured . . .
- Form over substance “You mean I’m supposed to do something besides initial it.”
- Control override. “I know that’s the policy, but we do it this way.” “Just get it done, I don’t care how.”
- Inherent limitations. People are people and mistakes happen. You can’t foresee or eliminate all risk.



*Who is Responsible for
Internal Controls?*

EVERYONE !!!



Central Office

At the direction of the Foundation's Board of Directors, the Central Office is responsible for the general governance and administration of the Foundation and is charged with issuing Foundation policies and procedures that guide principal investigators and employees and protect Foundation assets. These are the basis of the Foundation's internal control system.



Institute Directors and Business Office Personnel

Are assigned the responsibility to provide oversight and direction to principal investigators and administrators responsible for major areas such as:

- Research departments.
- Research support operations.
- Business offices (Grants Administration , Human Resources, Information Technology, Payroll, Purchasing,) etc...



Institute Directors and Business Office Personnel (cont'd)

Are responsible for:

- Designing and implementing control systems for the departments under them.
- Implementing Foundation or Institute wide control policies and procedures.
- Ensuring that responsibilities come with the appropriate authority and accountability.



Principal Investigators and Administrators

Are responsible for:

- Designing and implementing controls specific to their area (eg. controls for safeguarding prescription drugs or encryption of data on laptops).
- Implementing Foundation or Institute wide control policies and procedures.
- Ensuring that responsibilities come with the appropriate authority and accountability.



Principal Investigators and Administrators (cont'd)

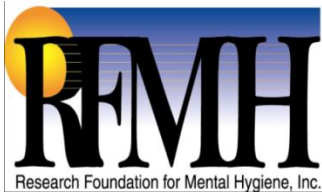
Are responsible for:

- Ensuring all expenses being charged to an account are accurate and allowable under the grant.
- Ensuring all employees being paid on the grant are allocating the appropriate effort to the grant.



Unacceptable Practices in Sponsored Program Management

- Paying overtime for non-worked hours to increase an employee's salary or as payment for non-reimbursable bonuses or travel.
- Inter-departmental agreements to purchase items for other labs or paying salaries or overtime that are inappropriate expenses on the grant.
- Inappropriate purchases at the end of a grant to spend unused funds.
- Misusing grant funds for purchases outside what is authorized in the sponsor's requirements.
- Being behind in reviewing and certifying Monthly Project Summary Reports and timesheets.



Foundation Specific Internal Controls

Examples are as follows:

- Review of Monthly Project Summary reports to ensure the accuracy of personnel and non-personnel expenses.
- Certification of employee effort.
- Timely Bi-weekly approval of Oracle Time & Labor timesheets. We are not on payroll lag.
- Approval of Personnel Action Forms.
- Review, understand and accept terms and conditions under grants and contracts.
- Approval of requisitions, purchase orders and invoices.
- Required to change Ftask password every 90 days and Oracle password every 120 days.



Examples of Breakdowns/Failure in Internal Controls

- Principal investigator's password was given to another person to electronically sign documents.
- Too much responsibility was delegated to one person with no segregation of duties.
- Documents were signed without a thorough review of the detail.
- Laptops were stolen due to them not being secured in a locked room or filing cabinet.
- Drugs that were not closely monitored were stolen in small doses.
- Petty cash was stolen that was not secured in a locked room or filing cabinet.



Examples of Breakdowns/Failure in Internal Controls (cont'd)

- Salary was certified many months after the grant end date and it had an employee that did not belong on the account. The salary costs were disallowed by the sponsor and the Foundation had to absorb the cost.
- Vendor was allowed to submit an invoice in advance of the service.
- Hourly voucher was signed by a supervisor and returned to the employee who changed the hours. Send approved vouchers, travel reimbursement request, etc... directly to the Payroll/Business Office.
- OIG effort reporting audits have resulted in significant disallowances and settlements; Yale \$7.6 million, Harvard \$ 3.2 million and E. Carolina Univ. \$2.3 million.



Ramifications of Failure in Internal Controls

Incorrect charges to a grant could result in the following:

- Payback of sponsored funds.
- Suspension of research and funding.
- Federal debarment list.
- Criminal charges for false claims.



Everyone Needs to ...

- Read and understand the policies and procedures which affect you and your job.
- Comply with the controls established to protect both you and the Foundation.
- As you do a job, if you notice a control weakness, point it out to your supervisor or manager.
- Ask questions, if something does not look right, then talk to your Supervisor, Institute/Location Director or Foundation Central Office for appropriate follow up or explanation. Managers have an obligation to consider and take action when there is an issue.



Thinking About Internal Controls? Consider the Following ...

- Propriety of transactions - is this legal and reasonable (Does it look or feel wrong? Would someone else think so?).
- Reliability and integrity of information - is the information/form/data accurate and complete?
- Compliance with policies and government regulations - are you following established instructions or procedures?
- Safeguarding assets - could anyone take or gain access to items under your control without being observed?
- Economy and efficiency of operations - is there a better way to do the job?
- Segregation of duties – is there appropriate separation of functions?

Other Considerations

- The cost of a control should not outweigh the benefit. Assigning two guards to follow someone around to make sure neither the person nor the other guard takes anything isn't reasonable. Some controls cost little. For instance having an administrator approve a purchase requisition or pay order.
- You can't pick and choose which "official" controls you want to comply with. If a procedure doesn't seem to make sense or appears unnecessary, check it out with management and get it changed. Don't stop complying until the change is official, you may not have the full picture.

Oversight and Internal Reviews

Principal investigators and administrators should systematically and objectively evaluate their operation and controls to determine if:

- Financial & operating information is accurate and reliable.
- Risks are identified and minimized.
- External regulations and internal policies and procedures are followed.
- Satisfactory standards are met.
- Resources are used efficiently and economically.
- Security process and procedures are adequately implemented.

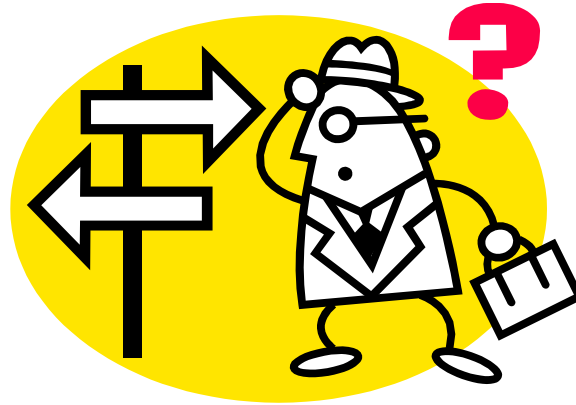


What Does THAT Mean?

Oversight and internal reviews should be considered a detection control. By looking at documents, records, operations, and talking with people, an internal review confirms that the controls in place are working as intended.

Appropriate changes should be made to improve operations and decrease risk to the employee and the Foundation.

Have Questions?



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