Internal Controls

What are they and Why should I care?
Internal controls are processes designed to protect what people value.

Most people don’t realize that they use internal controls everyday.
## Examples of Everyday Internal Controls

<table>
<thead>
<tr>
<th>Personal Controls</th>
<th>University Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>We lock our homes and vehicles.</td>
<td>Offices, buildings, and vehicles are locked.</td>
</tr>
<tr>
<td>We keep our debit card pin numbers confidential.</td>
<td>Computer passwords are confidential and changed regularly.</td>
</tr>
<tr>
<td>We keep our checkbook and cash secure.</td>
<td>Cash and checks are kept in secure locations.</td>
</tr>
</tbody>
</table>
Examples of Everyday Internal Controls

Personal Controls

- We review bills or statements before paying them.
- We expect family members to ask permission before they borrow our car.

University Controls

- Monthly expense statements are reconciled to receipts.
- Some activities require prior authorization, for example, out of state travel.
Internal Controls are Designed to Minimize Risk by:

- Protecting assets.
- Ensuring records are accurate.
- Promoting operational efficiency.
- Encouraging adherence to policies, rules, regulations, and laws.
- Reducing the opportunity for fraudulent activity.
For example internal controls help to minimize the risk of fraud because:

- Fraud is often committed by our most trusted employees, since we watch those we don’t trust.
- The fraud perpetrator is usually well respected, well educated, has a family and goes to church.
- 85% of fraud occurs because of weak internal controls.
- When certain elements are present fraud is more likely to occur.
Fraud can occur in any department when the following three elements come together:

- **Pressure or Need**: A person experiencing financial pressure is more likely to participate in fraud.
- **Perceived Opportunity**: A person sees an opportunity to commit fraud without being caught.
- **Rationalization**: A person must feel their actions are justified whether or not those actions are appropriate.
Two Types of Internal Controls

- **Detective**
  - Let’s find the problem before it grows.

- **Preventive**
  - Let’s stop an unwanted outcome before it happens.
Examples of Detective Controls

- Preparing cash counts and bank reconciliations.
- Reviewing payroll reports.
- Comparing transactions on monthly purchasing card statements to receipts.
- Monitoring expenditures against budgeted amounts.
Examples of Preventive Controls

- Reading and understanding purchasing card policies in order to learn what purchases are acceptable and how to document them.
- Ensuring that requisitions are approved before the purchase is made to prevent inappropriate purchases.
- Using computer passwords to stop unauthorized access.
Who is responsible for internal controls?

- President
- Vice President
- Dean
- Supervisor
- Everyone
In fact, everyone has a responsibility to ensure adequate internal controls by:

- Reading and understanding the policies and procedures which affect you and your job.
- Evaluating the propriety of transactions—Is this legal and right?
- Safeguarding assets—Could anyone take or gain access to items under your control without being observed?
- Evaluating the economy and efficiency of operations—Is there a better way to do the job?
You can’t choose which 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.

Controls are there to protect you as well as the University.
Why don’t internal controls always work?

- Inadequate knowledge of University policies or governing regulations.
  - “I didn’t know that.”

- Inadequate delegation of duties.
  - “We trust ‘Wanda’ So we have asked her to do 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...

- Control override.
  - “I know that its against policy, but my supervisor always approves it.”

- Form over substance
  - “You mean when I initial this document it means I’m approving it?”

- Inherent limitations.
  - People are people and mistakes happen. It is impossible to foresee or eliminate all risks.
Final Note:

It is important to understand that the attitude of management encourages or discourages employees to follow good control procedures.
Questions?

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