



*The discipline of learning. The art of caring.*

In an effort to disseminate information and assure that we are in compliance with guidelines caused by the Sarbanes Oxley Act that proper internal controls are being adhered to, we have developed some guidelines gathered from samples from other educational institutions similar to ours with a Self-Assessment Questionnaire at <http://wsprod.westernu.edu/icsaq/> to help establish and maintain effective controls in our departments.

As an educational institution that conducts research and also provides patient and animal care, the University is heavily regulated and subject to audits by federal and state agencies. These agencies sponsor research, provide financial aid to students, pay for patient care and support our finances through bond issues.

Not only does the University have special fiduciary responsibilities when it accepts federal and other restricted funds, but in addition, we need to be accountable for funding from our normal operations. As an administrator, you play a key role in the accounting and control processes for your department and make daily decisions that have an impact within the University.

This Questionnaire/Guide is intended to assist you in decision making, as well as in day-to-day operations.

Best Regards,

*Christopher Crow*  
*Assistant Treasurer of Fiscal Operations*

## **DEFINITION OF INTERNAL CONTROL**

The Treadway Commission has defined “Internal control process as a process, effected by an entity's board of directors, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

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

Internal control can also be judged by the board of trustees and management with reasonable assurance that the operating objectives are being achieved, financial statements are reliable and all applicable laws and regulations are being complied with.

An internal control can be thought of as something that prevents or detects errors or omissions.

Preventive controls attempt to prevent or deter undesirable acts from occurring. They are proactive controls, designed to prevent a loss, error, or omission. Examples of preventive controls are separation of duties, proper authorizations, adequate documentation, and physical security over cash and other assets.

Detective controls attempt to detect undesirable acts that have occurred. They provide evidence after-the-fact that a loss or error has occurred, but do not prevent them from occurring. Examples of detective controls are variance analyses, supervisory reviews of account activity, reconciliations, and physical inventories.

Preventive and detective controls are both essential for an effective internal control system.

A control conscious environment is necessary. It is an environment that supports ethical values and business practices, as well as exhibiting leadership behavior that promotes internal control and accountability

## **RESPONSIBILITY FOR INTERNAL CONTROLS**

Every individual within the University has some role in effecting internal control. Roles vary in responsibility and involvement. Managers are ultimately responsible for the appropriate use and control of the funds entrusted to them. Management is accountable to the Board of Trustees, which provides governance, guidance and oversight.

Management is also often accountable to the IRS and the funding agencies of federal and private grants and contracts.

## **SUSPECTED THEFT OR MISUSE OF ASSETS**

If you, as a member of the Western University of Health Sciences community, are aware of or suspect fraud, theft, embezzlement, or misuse of University assets, we ask that you report the problem to your supervisor, or if appropriate to their immediate supervisor. Any information you provide will be handled confidentially.

## **GENERAL CONTROLS FOR ALL DEPARTMENTS**

- Banner approval authority should be linked to specific dollar levels.
- Transactions should not be split to avoid higher approval levels.
- Approval authority should only be given to individuals with sufficient authority and knowledge to recognize and challenge unusual transactions.
- No signature stamps or blind approvals should be given.
- Passwords should not be shared or posted.
- Transactions should be reviewed for proper budget/object coding.
- All unusual items should be questioned, no matter how small the dollar amount.
- Checks should always be mailed to or picked up directly by the payee.
- Petty cash and other capital assets should be secured when not in use.
- No individual college or department should have their own bank accounts.
- System user access should be reviewed at least annually to ensure appropriate security is assigned. Upon termination, employee system access should be immediately revoked.
- Departments should be aware of all applicable University policies.
- There should always be appropriate segregation of duties.  
No one person should:
  - Record transactions and reconcile balances.
  - Handle cash and verify deposits.
  - Enter or approve check requests and have the check returned to them.
  - Handle assets and reconcile perpetual records to physical counts.
- Appropriate reconciliations should be performed timely and reviewed and approved by a supervisor.
  - All supporting documentation should be maintained in accordance with the record retention policy.
  - Supervisors should sign/initial all reconciliations indicating their review.

## **ACCOUNTS PAYABLE**

- Original invoices related to purchase orders should be sent directly to Accounts Payable by vendors.
- If supporting documentation is not required to be sent to A/P, it should be retained by the department in accordance with the University's record retention policy.
- Approvers should ensure that the payee name and address on the document matches the supporting documentation.

## **APPROVALS**

An important control activity is approval authority. 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 University policies and procedures. Approvers should review supporting documentation, verify the budget/object code accuracy, ensure "unallowables" are not charged to grants or contracts, question unusual items (vendors or transactions), and ensure that necessary information is present to justify the transaction -- before they approve it.

Approval authority should be linked to specific dollar levels. Transactions that exceed the specified dollar amount should require approval at a higher level. Approval authority should only be given to individuals with sufficient authority and knowledge to recognize and challenge unusual transactions.

Under no circumstances should an approver share his password with another person. Password security should be adjusted upon an employee's termination, transfer, or change in responsibilities.

To ensure proper separation of duties, a person should never approve a transaction for which they are the payee.

If the reviewer notes any transaction(s) that, after his/her investigation, is not a legitimate department expense, he/she should contact his/her supervisor. See also "Suspected Theft or Misuse of Assets" section.

## **ASSETS**

- Assets should be physically secured.
  - Cash, inventory, equipment, parking permits and supplies must be safeguarded from unauthorized access, use or theft. Examples of access controls to safeguard assets are locked doors, filing cabinets, and drawers, and safes. The number of individuals with access to the keys or lock combinations should be as few as possible. Locks should be changed when employees who had keys to significant amounts of assets terminate.
- Asset disposals and asset transfers between areas should be recorded timely.
- Online fixed asset records should be updated regularly.

- Inventory items received and issued should be recorded timely, so that a current "book" balance is always known.
- Periodic counts of inventories should be performed.
  - A person who is independent of the inventory purchasing and inventory custody functions should physically count the inventory items.
- A comparison of inventory counts to the department's perpetual inventory "book" records should be performed and all differences investigated.
  - The counts should be compared to the "book" balances. Missing items should be investigated, resolved, and analyzed for possible control deficiencies. "Book" records should be adjusted to the physically counted quantities if missing items cannot be located.

## **CASH AND CHECKS HANDLING**

- All funds received should be deposited through the Bursar's Office.
- A manual or electronic log of all cash, checks, and credit card payments received should be maintained. This log should list the amount received, its form (cash, check, or credit card), the payor, and the purpose of the payment. The clinics should maintain proper documentation and recordation for billing and collection purposes.
- Receipts for all payments received, regardless of payment type (cash, check, or credit card) should be provided.
- All receipts should be properly accounted for and should agree with the log used to record monies received.
- Checks should be restrictively endorsed upon receipt by stamping or writing "For Deposit Only, Western University of Health Sciences" on the back of the check.
- Cash, checks, and credit card forms should be taken to the Bursar's Office immediately or kept in a locked, secure, and restricted facility, such as a drawer or safe, until they are deposited. Limit who has access and keys/combinations to the locked facility.
- All monies should be deposited timely. Normally, on-line receipt vouchers should be entered and deposits should be made within 24 hours of the time the monies are received.
- An employee with no cash handling responsibilities should verify that the amounts actually deposited equal the amounts from the log or receipts, not from the receipt voucher. This will detect if some of the money has been stolen, and a lesser amount written on the receipt voucher and deposited.
- In clinical areas:
  - An employee with no cash handling responsibilities should verify that all fees are collected, including those for cancellations, and no-shows.
  - Persons who receive cash and check payments should not enter patient charges nor be responsible for clearing the Missing Charges Report items.

## **GIFTS AND ENDOWMENTS**

- Checks should be restrictively endorsed upon receipt by stamping or writing "For Deposit Only, Western University of Health Sciences" on the back of all checks received.
- A log should be kept of all incoming gift and endowment checks and cash.
- Individuals opening the mail should not have access to the donor's records.
- Endorsed checks and cash should be forwarded immediately to Advancement.
- The department's record of incoming gift and endowment checks and cash should be reconciled to the University's Banner Advancement Module to ensure all amounts have been received and deposited.
- Advancement Department should be notified upon receipt of non-cash gifts.
- Appraisals of non-cash gifts must be made by an outside appraiser and must be paid for by the donor.

## **INTERDEPARTMENTAL BILLING**

- Interdepartmental Billings should be approved and prepared on a timely basis.
- Campus store purchases should be supported with receipts that are approved and signed by an appropriate, authorized individual, and should indicate the business purpose
- Methods should be in place to ensure all billable goods and services provided are billed and collected.

All policies should be reviewed in connection with interdepartmental billings. Government grants and contracts cannot be charged more than non-governmental (including internal) customers.

## **PAYROLL/PERSONNEL**

- Non-exempt employees (employees eligible for overtime pay) must complete timesheets of the number of hours they worked each day. This is a federal Wage and Hour requirement.
- Timesheets must be approved and signed by appropriate supervisors.
- Overtime must be paid at time and one-half for any hours worked beyond 40 in a workweek and at straight time rate between 37.5 and 40 in a workweek. Compensatory time off is not permitted in lieu of overtime payment. This is a federal Wage & Hour requirement.
- The advance approval of a supervisor must be obtained before overtime occurs.
- Payroll checks should be distributed by someone other than the individuals who enter or approve payroll.
- All unclaimed payroll checks should be returned to the Payroll Department if they are not claimed within 5 days.
- Undistributed payroll checks should be safeguarded by keeping them in a locked, restricted facility.
- Unclaimed checks should never be given to the individuals who enter or approve payroll.
- Terminated employees should promptly be removed from the Payroll system and the status of inactive employees should be reviewed periodically.
- Each employee's sick leave and vacation time should be accurately tracked.
- Access to payroll information should be limited to only authorized individuals with a legitimate business purpose.
- Employees must be paid at least minimum wage and be 16 years old.

- Direct deposit of paychecks should be strongly encouraged.
- Wage information should not be externally released without the written consent of the employee (or a subpoena).
- Form I-9 (employment eligibility verification) data must be collected and verified within three days of hire.
- Any court-ordered garnishments, child support orders, and tax levies should be forwarded immediately to the Payroll Office.
- An employee should not also be paid as an independent contractor.
- Question whether any independent contractors in your area should instead be classified as employees. The U.S. Internal Revenue Service has rules defining independent contractors versus employees.

## **PETTY CASH**

- The petty cash fund should be kept in a locked, secure place.
- Access to the petty cash fund should be restricted to the custodian and a back-up person.
- Petty cash should be disbursed only by the custodian (or a back-up person in the custodian's absence).
- Original receipts should be required in order to disburse petty cash. Receipts should be maintained in the petty cash fund box for reconciling.
- The person to be reimbursed should indicate on the original receipt what was purchased (if not obvious on the receipt), the business purpose, and account and fund to be charged.
- The original receipts should be approved and signed by an appropriate, authorized individual, such as the supervisor of the person to be reimbursed.
- The petty cash fund should not be used for personal expenses, personal loans, or the cashing of personal checks.
- The Custodian should be responsible for regularly reconciling the petty cash fund. (The sum of cash plus original receipts plus any outstanding reimbursements should equal the full, original amount of the fund.)
- Periodic, surprise counts of the petty cash fund should be performed by someone other than the custodian, such as a supervisor. These periodic counts should be documented and the documentation maintained in conjunction with the record retention policy.
- Requests for closing a petty cash account should be made timely. The Accounts Payable performs an annual written confirmation of the petty cash account balances.

- The department should decide if a petty cash fund is needed. If not, the Business Office should be contacted to close the fund. The petty cash fund money should be deposited, indicating on the receipt voucher that it is the closing of the petty cash fund.

## **PURCHASING**

- Competitive bids or sole source justifications must be obtained by the department and forwarded to the Purchasing Department in advance.
- Banner requisition process should be used.
- Purchasing via personal reimbursements should be discouraged.
- Purchases of personal items should not be permitted, even if employees will reimburse.
- The use of the University's preferred suppliers should be encouraged in order to receive special rates based on contracts the University's Purchasing Department has negotiated.
- Purchase orders should not be issued to employees.
- Purchase orders should not be issued to individuals.
- See "Approvals" and "Segregation of Duties" sections in this manual.

Additional policies should be reviewed in conjunction with purchasing transactions including the conflict of interest policy and the financial disclosure policy.

## **RECONCILIATIONS**

- **Cash**
- **Payroll**

Reconciliations are a comparison of different sets of data to one another in order to ensure the accuracy and completeness of transactions. Integral parts of the reconciliation process include identifying and investigating differences and taking corrective action, when necessary, to resolve differences.

To ensure proper separation of duties, the person who enters or approves transactions or handles cash receipts should not be the person who performs the related reconciliations.

Examples of reconciliations that should be performed by departments are:

- Reconciling the dollar amount of cash and checks received per original records (not per the receipt vouchers) to the dollar amount actually deposited.
- Reconciling actual payroll expenses to expected payroll expenses.

Reconciliations should be performed timely, documented, and approved by management.

## **REVIEWS BY MANAGEMENT**

- Budget to actual expense comparisons should be performed and significant differences investigated promptly.
- Transactions, records, and reconciliations should be routinely spot-checked to ensure expectations are met as to timeliness, completeness, segregation of duties, propriety of the transaction, etc.
- Unexpected results or unusual transactions should be immediately investigated.
  - They might be indications of theft or fraud. Ask for explanations of unexpected results and ask for reasons for unusual transactions. Question the explanations and reasons if they don't seem right, ask to see the items that were purchased, etc. (See Suspected Theft or Misuse of Assets section in this manual.)
- Reviews of reports and reconciliations should be documented by initialing, dating and briefly indicating the resolution of any follow-up performed on unexpected results or unusual transactions.

## **TRAVEL**

- Spouse or guest travel is unallowable as a charge to federal grants and usually unallowable as a University expense. Airfare, meal and hotel receipts should be reviewed for evidence of multiple travelers.
- Alcohol is unallowable as a charge to federal grants. Meal and hotel receipts should be reviewed.
- Travel reporting should be reviewed periodically and whether outstanding travel advances and prepaid expenses are cleared on travel expense reports on a timely basis.