UMBC
Management Advisory Services

Internal Controls Overview

www.umbc.edu/mas
What Is Internal Control?

• A process designed to provide reasonable assurance regarding the achievement of the following objectives:
  – Effectiveness and efficiency of operations;
  – Reliability of financial reporting; and
  – Compliance with applicable laws and regulations.

Source: OMB Circular A-133
Importance of Internal Controls

• Good business practices
• Occupational Fraud prevention
• Positive audit reports:
  • Legislative audits
  • Internal audits
  • External Audits
USM CY14 Internal Audits

- Construction Contracts >$5M
- Grants & Contracts Oversight and Management
- Health Center Services*
- Learning Systems – Black Board
- Occupational Fraud Periodic Review*
- Tech Center–Incubator Program
- Works Continuous Pcard Monitoring
- Follow Up Audits – 3
- *(currently in process)
Occupational Fraud

Opportunity

Pressure

Rationalization
Crowe’s Fraud Pentagon™

- The Crowe Fraud Pentagon adds Arrogance and Competence to the traditional triangle.
Special Concerns for Colleges and Universities

• Colleges and Universities have the additional consideration of employees who could potentially rationalize improper expenditures as being for the “public good.”

• Colleges and Universities present a unique position in the fraud can be perpetuated for personal, organizational benefit or both.
Who’s Responsible?

- The establishment, implementation and monitoring of internal controls is the responsibility of the:
  - President for the Institution.
  - Vice Presidents for their Divisions.
  - Deans for the Colleges.
  - Department Chairs and Directors.
Control Activities

- Approvals
- Authorizations
- Verifications
- Reconciliations
- Separation of duties:
  - Custody
  - Approval
  - Recordkeeping
Control Environment

- Identify your Departmental assets – it’s not just cash but includes FAC codes, P-card numbers, grades, equipment and even keys.
- Important to keep the assets in your Department controlled.
- Monitor – keep a check on rising operational expenses such as supplies.
CriticalControls Checklist

- [link] http://www.umbc.edu/mas/
- Payroll
- Cash
- P-Card
- Non-Pcard
- Equipment Inventory
- Petty Cash
- Travel
Equipment Inventory Guidance

- Each Department has a designated inventory custodian.
- Each Custodian should be knowledgeable with regard to the inventory control guidelines. (see Inventory Control on Financial Services web site [http://www.umbc.edu/accounting/plant_accounting.htm](http://www.umbc.edu/accounting/plant_accounting.htm))
- Capital equipment has an acquisition cost of $5,000 or more, not permanently affixed to building with a useful life greater than a year.
- Sensitive equipment has an acquisition cost of $1,000 or more, but less than $5,000 and considered easily convertible to personal use and includes computers regardless of cost, (e.g. desktops, laptops and tablets).
- Any equipment purchased by UMBC, either with state funds or grant funds is UMBC’s property.
What can you do?

• Recognize the benefits of internal controls.
• Work within the established policies and procedures of the University and your Division.
• If you do not understand or need assistance, MAS is available to assist you.
Reporting Fraud

Report suspected fraud to:

- Your Deans or Vice Presidents Office.
- Contact Management Advisory Services to assist.
- Consider the new USM Fraud Hotline 1-877-330-2320.
- Depending on the findings, others will be advised.
MAS Assistance

- Remember – when (i) key employees or (ii) business processes change, MAS is available to revisit the status of your controls.

- Contact MAS for assistance.

- Critical Control Points Checklist and Monthly P-card Checklist (available on MAS website under “Internal Controls”)

www.umbc.edu
MAS Contacts

We welcome the opportunity to assist you.

- Sharon Doherty-Ritter – 51620
- Dave Sohns – 56257
QUESTIONS?
WHAT IS YOUR IC IQ?
What is Internal Control?

- The objectives of internal controls are:
  - Effectiveness and efficiency of operations.
  - Reliability of financial reporting.
  - Compliance with applicable laws and regulations.

Source: OMB Circular A-133
Importance of Internal Controls

- Good business practices
- Occupational Fraud prevention
- Positive audit reports: Legislative/Internal/External
- Preserve and protect our reputation
True or False?

Cash (including checks) in excess of $25 should be deposited within 24 hours of receipt or the next business day.

1) True

2) False
The correct answer is 1 - True

- The ‘next business day’ applies if the “cash” is received on a Friday or the day before a holiday.

- Prompt deposit of “cash” minimizes the risk for loss or fraud.
Who is responsible for reporting equipment that was added, transferred, disposed of or relocated?

1. Financial Services
2. The purchaser of the equipment
3. The department property custodian
4. The person in possession of the equipment
The correct answer is 3-The property custodian

- Any equipment purchased by UMBC, either with state funds or grant funds, is University property.

- We need to be good stewards of our assets.

- Each department is required to have a designated property custodian who has attended training.
Which piece of equipment requires a UMBC inventory tag?

1) Desktop Computer
2) iPad
3) Laptop
4) All of the above
The correct answer is 4 – All of the above

- All computer equipment must be tagged.
- This includes: Desktops, Laptops, Netbooks, Tablets/Ipads, and Servers
When should cash counts be performed on petty cash funds?

1) Monthly
2) Twice a year
3) Randomly and Unannounced
4) Weekly
The correct answer is 3 – Randomly and Unannounced

- Petty cash is an area that is highly vulnerable to fraud.

- Total petty cash must be accounted for at all times.
True or False?

Departmental approvers of travel expense reimbursements should confirm that a University credit card was not used for these expenses.

1) True
2) False
The correct answer is 1-True

- This has been a finding in other USM institution audit reports.

- This situation has occurred at UMBC, which required reimbursement by the employee to UMBC.
True or False?

The individual who enters time sheets should also approve payroll.

1) True
2) False
The correct answer is 2 – False

Separation of duties is an essential part of internal controls.
What documentation is required to release student information to someone other than the student?

1) FERPA Form
2) SSN Card
3) Driver’s License
4) Campus ID Card
The correct answer is 1 – FERPA Form

- The Family Educational Rights and Privacy Act (FERPA) is a Federal law that protects the privacy of student education and financial records.

- A FERPA form must be on file before any academic or financial information can be released to anyone other than the student.
Internal control is a process designed to provide reasonable assurance regarding the achievement of which objective?

1) Effectiveness and efficiency of operations
2) Reliability of financial reporting
3) Compliance with applicable laws and regulations
4) All of the above
The correct answer is 4 – All of the above

- Strong internal controls can help us:
  - Reduce waste, fraud and abuse
  - Be good stewards of the resources entrusted to us
  - Safeguard the University’s assets
  - Create an ethical work environment
Which of the following is NOT a control activity?

1) Financial Reporting
2) Performance Reviews
3) Documentation of Procedures
4) Separation of Duties
The correct answer is 2 – Performance Reviews

- Internal control activities include:
  - Approvals
  - Authorizations
  - Verifications
  - Reconciliation
  - Separation of duties: custody, approval, and recordkeeping (CAR)
P-Card folders should be reviewed _________.

1) Daily
2) Weekly
3) Monthly
4) Annually
The correct answer is 3 - Monthly

• Monthly review of P-Card folders allows supervisors to identify p-card misuse and fraud.

• Performing consistent monthly reviews creates a strong internal control environment minimizing the opportunity for loss.
How did the following fraud occur?

A P-Card supervisor approved P-Card logs lacking supporting documentation for 54 transactions totaling over $7,400.

1. The supervisor trusted the employee.
2. The supervisor performed inadequate reviews.
3. The P-Card holder committed fraud.
4. All of the above.
The correct answer is 4 - All of the above

Supervisors must review the cardholder’s transaction log and documentation every month, ensuring:

- All charges are reasonable and appropriate for their department.
- Appropriate supporting documentation is included for every purchase.
- Bank statements and logs match.
This P-Card envelope has been submitted for approval.
Should a supervisor sign off on this P-Card folder?

1) Yes

2) No
The correct answer is 2 - No
Month/Billing Cycle: July

UMBC PURCHASING CARD PROGRAM CARDHOLDER TRANSACTION LOG

ALL COLUMNS MUST BE COMPLETED

Dept. Name: UMBC
Cardholder Name: 

VISA No. (last 4 digits only) 9521
ChartString No. H191-12345-011

<table>
<thead>
<tr>
<th>Order Date</th>
<th>Authorization Voucher/Contact</th>
<th>Item/Desc.</th>
<th>Total Cost Refunded</th>
<th>Realization/ChartString</th>
<th>Date Received</th>
<th>Proper Documentation Enclosed</th>
<th>Reconciled to Bank Statement Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/1/08</td>
<td>JD</td>
<td>Paper, clips, paper clips, folders</td>
<td>100</td>
<td>1234 0000 011 123456789</td>
<td>7/1/08</td>
<td>JD</td>
<td>7/25/08</td>
</tr>
<tr>
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<td>7/25/08</td>
</tr>
<tr>
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<td>JD</td>
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<td>1234 0000 011 123456789</td>
<td>7/3/08</td>
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<td>JD</td>
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</tr>
</tbody>
</table>

NOTE: All purchases and credits must be recorded on this Transaction Log. By initiaiting and signing this log, the Cardholder and Supervisor or approved designee certify that the purchases above 1) are reasonable and appropriate for their using department, 2) match the corresponding VISA statement and 3) comply with the current (UMBC and Maryland State purchasing card regulations, policies and procedures. Original receipts to document each transaction are attached/enclosed.

*Or person other than cardholder's supervisor of card (e.g. faculty, staff, Dean, Director, Department Head, or Supervisor or approved designee).

**May be the 23rd or 24th due to weekend/holidays.

Signature: 
Cardholder: 
Date: 8/21/08
(Must be completed within 30 days after the end of the billing cycle.)

Signature: 
Revisor (Approval - Supervisor or approved designee)
Date: 8/21/08
(Must be completed within 30 days after the end of the billing cycle.)

SEE BACK OF ENVELOPE FOR CHECKLIST
True or False?

Gift cards can be purchased using a P-Card.

1) True
2) False
The correct answer is 2-False

- Purchasing gift cards with the P-Card is strictly prohibited by the State.
- The potential for abuse is extremely high.
Gift Cards and P-Cards

- Gift cards can be purchased via PO, expense reimbursement under a grant only, or journal entries for on campus gift cards (bookstore or dining services).

- Grant documents must specifically provide for the use of gift cards as incentives.

- In all cases, documentation must be maintained as to the distribution of the gift cards.
Which of the following is not required in P-Card back-up documents?

1) Name of vendor
2) Full description of items purchased
3) Date of purchase
4) Name of the requestor
5) Transaction amount
The correct answer is
4-Name of the requestor

- Complete supporting documentation is important.

- Inquiries to the P-Card holder are not a reflection of mistrust, but rather to protect both the cardholder and approver.

- Appropriate review demonstrates ethical behavior.
Recent UMBC P-Card Example

- P-card holder made personal purchases totaling $8,600 over a 3 year period.

- P-card transactions approved by P-card approver without reviewing the documentation.

- Employee lost job and AG’s Office prosecuted.

- Situation was reported in the newspaper, on TV and on audit association websites.
True or False?

Internal controls provide absolute assurance that fraud will not occur.

1) True
2) False
The correct answer is 2 - False

- Internal controls are tools to minimize the opportunity for fraud.
- A key to minimizing fraud is to create an ethical work environment.
True or False?

It is appropriate for a Professor to rely on a student to record final class grades?

1) True
2) False
The correct answer is 2 - False

- Grades should be submitted by the Professor directly to the Registrar.

- Controls over academic records are an important element in protecting our institution’s academic integrity.