

**KUSM-WICHITA
INTERNAL CONTROL STANDARDS
QUESTION & ANSWERS**

What are internal controls and why should I care?

Internal controls are simply good business practices and the way we should conduct business so our goals and objectives are achieved. They are nothing more than policies or procedures put in place to safeguard assets, provide reliable financial information, promote efficient and effective operations, and ensure policy compliance. Moreover, internal controls may provide forewarning to inefficient processes, potential errors and surprises. A simple illustration of a control is locking your car doors and securing your home. You assume you will not be robbed, but you lock your door(s) to reduce the opportunity and probability of occurrence.

Why should I change the way I am currently doing things?

Internal Controls are the process, not something added to the process. They:

- Protect employees who handle money, reconcile accounts and carry out financial transactions
- Demonstrate fiscal responsibility for taxpayer monies and promotes responsible stewardship
- Safeguard assets
- Ensure accuracy and reliability of financial and other records
- Promote operational efficiency and effectiveness
- Prevent or detect errors and omissions for timely correction
- Standardize practices across departments to ease training and collaboration

Who is responsible for internal controls?

While every employee has some responsibility for making sure that the system of internal control functions properly, management is responsible for ensuring that adequate controls are in place. Management should ask:

- ? How do I know that things are ok?
- ? How do I know staff are carrying out transactions as I direct?
- ? Do I assume that all is well until a crisis happens or do I review processes and transactions on a regular basis to make sure I know what is going on?
- ? As management, what am I doing to reduce the risk of loss
- ? How would it look if a loss occurred in my department?

I trust my employee(s) so why do I need controls?

Trust and verify. Controls prevent or detect errors and omissions, both unintentional and intentional. Internal controls are generally process focused versus people focused. So, regardless of who performs the duties, the process is designed to minimize risk of loss.

I'm not an expert in internal controls, how do I know if I have adequate controls?

In support of responsible stewardship, Administrative and Financial Services (AFS) provides Internal Control Standards <http://wichita.kumc.edu/afs/ics/ICS2006.pdf> and conducts internal

control audits and evaluates processes throughout the year. This review includes making recommendations to strengthen your internal control system. Additionally, you may contact AFS at any time to evaluate a process or when you are uncertain how something should be done.

What are the purpose, objectives and scope of the audit?

Internal control audits are forward looking and provide an opportunity to examine your business processes. The purpose of the audit is to ensure the application of sound business practices and exercise fiscal responsibility. The objective of the review is to evaluate the adequacy and effectiveness of your system of internal control and compliance with State and University policies and procedures. The scope varies by department but generally includes an appraisal of current business operations and processes.

How will I know when I will be audited?

AFS will notify you at least two weeks prior to the audit. At this time, the auditor will schedule an audit appointment(s) and provide you with a preliminary questionnaire, an agenda, and a list of processes and records to be examined.

How long will the audit take and what time is required of me and my staff?

Each audit's length will depend on the nature and scope of the review. The audit field work occurs in your department whereby the auditor examines records and interviews management and staff. Your attention is not required 100% of the time and the auditor works with you to avoid undue interruption. Evaluation of processes and records by the auditor occurs after the field work and may include follow-up questions.

What will be the result of the audit?

At the end of each audit, the auditor will prepare a report containing:

- Controls currently in place.
- Control findings and recommendations. This section will contain:
 - Finding – “What is”
 - Effect – “So what”
 - Control Standard – “What should be”
 - Recommendation – “What to do differently”
 - Management response – “What does management (director, administrative officer) intend to do”

Who will receive the report?

The report will be distributed to the department manager, his/her supervisor and the Dean.

What are the ramifications if I do not follow the audit recommendations?

The audit report is not intended to be punitive. It identifies ways in which management can better fulfill their fiduciary responsibility to safeguard university assets and prevent loss.

How much time do I have to implement the recommendations? What if I need help?

Because the auditor identified a potential risk to your process(s), recommendations should be implemented at your earliest opportunity. When possible, the auditor will make recommendations during the on-site audit field work which allows the change to take place immediately versus arrival of the formal audit report. Thus, the audit report should be a recap of findings and recommendations already discussed. AFS offers guidance and assistance as you implement the recommendations.

When will the auditor come back?

The auditor will conduct a post audit review, typically 6 months after the audit, to evaluate your progress on the recommendations.

In today's electronic age, why do I have to have written approvals and retain all that documentation?

Written approvals provide direction and evidence of such for employees to act. Documented approvals and paperwork protect employees from allegations of wrongdoing.

I don't have enough staff to separate duties. How do I compensate?

Inadequate separation of duties can only be offset by an increase in management review and oversight of transactions, independent source documents (vendor invoices, bank statements), financial reports, account reconciliations and budget, revenue and expense variances.

I don't have time to review all those documents and why should I review my employee's work?

The consequence, damage to our reputation and the time spent after an error or loss is discovered, is much greater than oversight controls. Although you may direct and delegate responsibilities, you are still ultimately responsible for the actions of your subordinates and therefore need to periodically review their work. If management does not review and approve transactions, there is no independent verification and authentication of transactions. Hence, errors, unauthorized transactions or irregularities will not be detected by management in a timely manner.

Do I have the right to disapprove transactions, no matter how small the dollar amount?

Absolutely, you should question any transaction you are not comfortable with.

Why do I need to perform an account reconciliation when I review the PeopleSoft financial report which shows my account balance?

An account reconciliation involves more than a review of transactions and ending balance. It entails verifying each posted transaction, accounting for transactions you initiated but not yet posted and calculating the resulting balance. Its like your personal bank account: PeopleSoft is the bank and your department transaction register is check book register.

Why do I have to use prenumbered vs. unnumbered receipts?

Just as checks are prenumbered, receipts should also be prenumbered because they:

- Provide a sequential accounting of all cash and checks
- Allow you to quickly identify missing receipts.
- Provide the customer with evidence of payment
- Minimize the opportunity to not record all funds collected.

Why should I maintain an inventory listing?

State employees are stewards over assets placed in their care. An inventory listing allows the university to know where its assets are located at any given time, helps identify missing assets to expedite recovery and alerts management to security threats.

Why do I have to maintain a department asset inventory list if the State, and Facilities Management locally, only requires official reporting and accountability of assets over \$5,000?

Effective asset inventory is best achieved if each department maintains an asset listing. The State still expects each state agency to safeguard all assets even though we are not required to report assets under \$5,000

If my department wants to dispose of an asset, can employees take home for personal use?

The state prohibits any state property, regardless of value and source of funds, to be given to an employee or individual. The asset should be surplusd with KUSM-Wichita Facilities Management.

What documents and records should I maintain?

When determining what to retain, ask yourself, "Is this document needed to support what prompted me to initiate the transaction, what occurred subsequently and the final outcome"?

How do I report misappropriation or misuse of funds?

Contact the Assistant Dean for Finance, 316-293-3552, who serves as the campus internal auditor or the Associate Dean for Administration, 316-293-2600.