

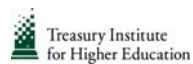
# Internal Controls and the Relationship to Treasury Functions

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## Agenda

- ◆ Review of Internal Controls
  - Concepts
  - Control Objectives
  - Control Environment
- ◆ Treasury Responsibilities



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## Internal Controls

Internal controls are a system consisting of specific policies and procedures designed to provide management with reasonable assurance that the goals and objectives it believes important to the entity will be met.

## Why have Internal Controls?

- ◆ Promote operational efficiency and effectiveness
- ◆ Provide reliable financial information
- ◆ Safeguard assets and records
- ◆ Encourage adherence to prescribed policies
- ◆ Comply with regulatory agencies

## Basic Concepts of Internal Controls

- ◆ Management, not auditors, must establish and maintain the entity's controls
- ◆ Internal controls structure should provide reasonable assurance that financial reports are correctly stated
- ◆ No system can be regarded as completely effective
- ◆ Should be applied to manual and computerized systems

## Detailed Internal Control Objectives

- ◆ Recorded transactions are valid
- ◆ Transactions are properly authorized
- ◆ Existing transactions are recorded
- ◆ Transactions are properly valued

## Detailed Internal Control Objectives

- ◆ Transactions are properly classified
- ◆ Transactions are recorded at the proper time
- ◆ Transactions are properly included in subsidiary records and are correctly summarized

## Control Environment Consists of:

- ◆ Management philosophy and operating style
  - Tone at the top
- ◆ Organization structure
  - Separation of duties
  - Fiscal officer reporting lines
- ◆ Assignment of authority and responsibility
  - Does everyone understand their role?
  - Responsibility without authority

## Control Environment Consists of:

- ◆ Competent, knowledgeable personnel
  - Personnel policies and procedures
  - Training and development
- ◆ Communication and information systems
- ◆ Internal audit function
  - Either in-source or outsource
- ◆ External influences
  - Compliance
  - External auditors

## Design a Control System

- ◆ Identify RISKS in your environment
  - Mission
  - Compliance
  - Transactional
  - Assets
- ◆ Identify control points
- ◆ Analyze potential EXPOSURES
- ◆ Design system to mitigate RISKS

## Internal Control Procedures

- ◆ Personnel
- ◆ Proper procedures for authorization
- ◆ Adequate separation of duties
- ◆ Adequate documents and records
- ◆ Physical control over assets and records
- ◆ Independent checks on performances

## Other Elements to Remember:

- ◆ Consistency of policy compliance
- ◆ Coordination in a decentralized environment
- ◆ Completeness and relevancy of policies
- ◆ Issue escalation and resolution process
- ◆ Accountability
- ◆ Flow of financial information

## Other Elements to Remember – con't

- ◆ Linkages between technology, process and organizational structure
- ◆ Alignment of University objectives, risks and controls
- ◆ Early warning systems
- ◆ Training and other HR mechanisms
- ◆ Tools and techniques for monitoring

## Treasury Responsibilities towards Internal Controls

## Policies and Procedures

- ◆ Mandatory timeline for depositing funds
- ◆ Restrictions on who can receipt funds
- ◆ Restrictions on receipt points
- ◆ Mechanisms for alternatives to funds receipting
- ◆ Adequate procedures to provide guidance on decentralized receipting
- ◆ Adequate policies and procedures on petty cash
- ◆ Refuse cash
- ◆ Limit access to certain functions
- ◆ Have transactional dollar limits
  - By function
  - By person

## Segregation of Duties

- ◆ Separate banking functions from accounting
- ◆ Bank reconciliation separate from Treasury function
- ◆ Multiple approvals for disbursement of funds – all authorizations are important
- ◆ System Administrator role HAS to be separated – a bank could provide this service.
- ◆ Reconciliation of accounts

## Monitoring

- ◆ Decentralized environments require MORE after the fact monitoring
- ◆ Who, what, where and how much should be monitored
  - To provide guidance
  - To provide alternatives
- ◆ Follow up on monitoring variances
- ◆ Ask Internal Audit to help

## Training

- ◆ Educate departments on alternatives to receipting funds in offices
- ◆ Educate them on your policies and procedures
  - Must be communicated to be effective
- Educate departments on disbursement alternatives to traditional disbursement mechanisms
- Exposure to fraud
  - Counterfeit cash
  - Bogus Checks
  - Credit Card Fraud
  - Short change artists
- Help personnel understand “phishing” emails

## Key Concepts to Retain

- ◆ Internal control is a *process*. It is a means to an end, not an end itself.
- ◆ Internal control is affected by *people*. It is not just manuals and policies, but the people at all levels of the organization.
- ◆ Internal control can be expected to provide *reasonable assurance*, not absolute assurance, to an entities management or board.

## Questions?

