

University of Missouri System

Accounting Policies and Procedures



Policy Number: APM-2.25.5

Policy Name: Internal Controls

General Policy and Procedure Overview:

The University and many of the external readers of the financial statements rely on the integrity of the University's financial reports and processes that is enhanced by strong internal controls. Management of the University at every level is responsible for designing and implementing internal controls appropriate for key business processes. Every employee is responsible to know and implement applicable internal controls.

Definition of Key Terms:

Internal control is defined as a process, effected by an entity's people, designed to accomplish specified objectives. The definition is broad, encompassing all aspects of controlling a business, yet facilitates a directed focus on specific objectives. Internal control consists of interrelated components that serve as criteria for determining whether the system is effective, as discussed below.

Detail Policy and Procedure:

Every manager is responsible for the systems and processes that fall under their sphere of influence. As part of this responsibility, managers must ensure that every process contains activities that ensure certain key objectives are achieved. Accounting managers must ensure that every process includes controls to achieve the following objectives:

Completeness: That all of the transactions for a given period have been processed and that individual or groups of transactions have not been omitted or misdirected. A common control is to have transactions grouped by "batch" and to prove each batch as it is processed. Another example is to develop a control total of transactions that should be processed today and verifying that total against the totals reported on system reports, or verifying today's deposit against the transactions posted to the ledger.

Authorization: Only those transactions that meet management's criteria are processed. Ways to accomplish this objective are to require manager's initials on all transactions being processed, management review of transaction journals, edit checks within the system to detect "unreasonable" transactions, etc.

Accuracy: Transactions are accurate in amount, ChartField, etc.

Timeliness: Transactions are recorded within the appropriate reporting period. All transactions must be processed within the applicable accounting period and recorded before there is opportunity for amounts to be misdirected.

Safeguarding of Assets: Protect assets against shrinkage. This control objective is most common for inventories of supplies, cash, investment securities, etc. What controls are in place to ensure accountability for the asset and to prevent shrinkage?

Managerial Review: Sufficient oversight of activities ensures controls are functioning as intended and that any errors or unauthorized activity is detected before the impact becomes significant. Managerial review includes activities taken by the manager to gain assurance that controls are functioning or provide a warning before a malfunction significantly impacts operations. There are a number of tools a manager can employ to achieve this objective, including:

- Reviewing and testing reconcilements to ensure they are performed correctly.
- Reviewing an aged listing of reconciling items.
- Performing balance fluctuation analysis
- Comparing rates of occurrence.

Every employee is responsible for following procedures outlined by management in the Accounting Policies Manual, Business Policy Manual, and any policy or procedures pronouncements relative to their job.

RESPONSIBILITY

Every employee

- Is responsible to know and follow appropriate policies and procedures for their job.
- Has a responsibility for internal controls.
- Is responsible for the execution of control activities.
- Must be aware of opportunities to increase the reliability and integrity of the University's accounting systems.
- Notify supervisors of weaknesses in, and opportunities to enhance internal controls.

Managers

- Are responsible for establishing appropriate controls in your sphere of influence.
- Are responsible for monitoring the effectiveness and functioning of controls.

Effective Date: July 1, 2006

Revised Date: May 6, 2007

Questions and Comments?

Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.