



Fac. of Applied Science and Engineering Presentation

Michael Moore
Internal Audit Department



Topics of Discussion

- ⊗ **Internal Controls**
- ⊗ **Expense Claims**
- ⊗ **Payments to individuals**
- ⊗ **Cash Handling/Revenue**
- ⊗ **Common audit findings**



Controls

- **Definition**
 - **“Control..support(s) people in the achievement of the organization’s objectives ... Control is what makes an organization reliable in achieving its objectives”**
 - **from Guidance on Control, The Canadian Institute of Chartered Accountants**



Internal Controls - objectives

• Financial transactions:

- **Completeness**
- **Accuracy**
- **Authorization**
- **Propriety**
- **Classification**



Internal Controls - examples

- **segregation of incompatible duties**
- **review of monthly reports**
- **one-up signature on expense claims**
- **signing authority delegated in writing**



Segregation of Incompatible Duties

- **Initiating (Authorizing)**
- **Recording**
- **Control Procedures
(Reconciling/Reviewing)**
- **Custody of Assets**



Review of Monthly Reports

- **Are all transactions**
 - **included**
 - **financially accurate**
 - **properly authorized**
 - **properly classified**
 - **eligible expenses**
- **Is there sufficient documentation?**
- **Was the review independent?**



Monthly Reports

- **s/b produced by someone independent**
- **s/b standard reports**
 - **Chair's Statement of Accounts**
 - **PI's Statement of Accounts**
 - **Payroll Distribution**
- **frequency of review**
- **check opening balance**



Strong Internal Control Environment

- **integrity, ethical values, competence**
 - **Hiring practices including reference checks**
 - **Policy on Conflict of Interest for Administrators and Academics**
 - **Annual Administrative Accountability Reports**
 - **Training, training, training**



Internal Controls - University policies and procedures

- **Guide to Financial Management (GFM)**
- **Purchasing Policy and Admin. Regulations**
- **Purchasing Charge Card Administrative Policy (Regulations) for Users**
- **Taxation of Payments Manual**
- **Human Resources - Administrative Staff Policies**
- **Operational Guidelines (re FIS processing)**
- **HRIS: Approvals, File Retention and Monitoring (PDAD&C memo)**



External Controls

- **Funded Research Sponsor Requirements**
 - **Researcher's Guide - NSERC**
 - **Funded Research Digests (FReDs) - RIS**
- **Legislative Requirements**
 - **Health and Safety**
 - **Employment Standards Act**
 - **Sales tax legislation**



Expense Claims

- **include proper source documentation:**
 - detailed statement of guest charges
 - original passenger coupon
 - official conference material indicating dates



Expense Claims

- **document pertinent information:**
 - **affiliation of claimant (if not PI)**
 - **purpose of expense**
 - **collaborators/institutions visited**



Expense Claims

- **ensure properly signed:**
 - **one-up approver**
 - **claimant's declaration**



Expense Claims

- **ensure compliance to:**
 - **University policies and procedures**
 - **Funded Research Digest**
 - **Researcher's Guide - NSERC**



Expense Claims

⊙ problems:

- report to Chair
- report to Dean
- Whistle-Blowing Policy



Payments to Individuals

- **Employment vs. Non-employment:**
 - **Taxation of Payments Manual**
 - **GFM Chap. 6 Sec. 4: Taxation of Payments**
 - **Classification of Consulting Services as “Employment” vs. Non-Employment - <http://ppsd.finance.utoronto.ca/consult2.html>**
 - **The CAUBO Income Tax Guide Chapter 6**
 - **CFO Working Group**



Payments to Individuals

☉ Processing methods:

- **Processing Payments through HRIS or FIS Accounts Payable (AMS Alert)**
- **Special Processing of Payments via FIS Accounts Payable (AMS Alert)**



Payments to Individuals

• Case law:

- Control test
- Integration Test
- Economic Reality Test
- Specified Results Test



Cash Handling/Revenue

- **minimize number of people handling cash**
- **avoid currency**
- **timely deposits**
- **separate handling of cash/cheques from recording**
- **perform independent reconciliation**
 - **rely on independent information (e.g.. class lists, tapes)**
 - **reasonableness checks**



Cash Handling/Revenue

- **use cash register**
- **use prenumbered receipts**
- **do not disburse revenues**
- **restrictive endorsement of cheques**
- **use of remittance advices/pre-listing of cash**
- **use sufficient number of g/l accounts**
- **use A/R and standard invoices**



Common Audit Findings

⊙ Purchasing:

- **No P.O.s - services not exempt**
- **Splitting purchases**
 - to avoid system-generated POs
- **no quotations or lack of documentation**
- **delegation of signing authority not in writing**
- **consulting agreement missing or inadequate**
 - standard contract not used



Common Audit Findings

• Purchasing (cont'd):

- receiving report not completed independently of invoice approver
- charging books to NSERC account when available in library

• Taxation of Payments:

- ER/EE relationship appears to exist
- invoicing by employees



Common Audit Findings

☉ Expense Claims:

- **lack of documentation**
 - detailed statement of guest charges
 - original passenger coupon
 - affiliation of claimant not noted
 - purpose of expense not noted
 - missing official conference material indicating dates
 - collaborators/institutions visited not noted



Common Audit Findings

• Expense Claims (cont'd):

- claimant declaration missing
- accountable advances issued too soon



The Role of Internal Audit

- **“Auditors are those people that bayonet the wounded after the battle is fought.”**



Types of Internal Audit Services

- **Departmental Audits and Follow-ups**
- **Continuous Auditing**
- **Reviews of Administrative Information Systems**
- **Operations Reviews**
- **Special Reviews**



Audit Objectives

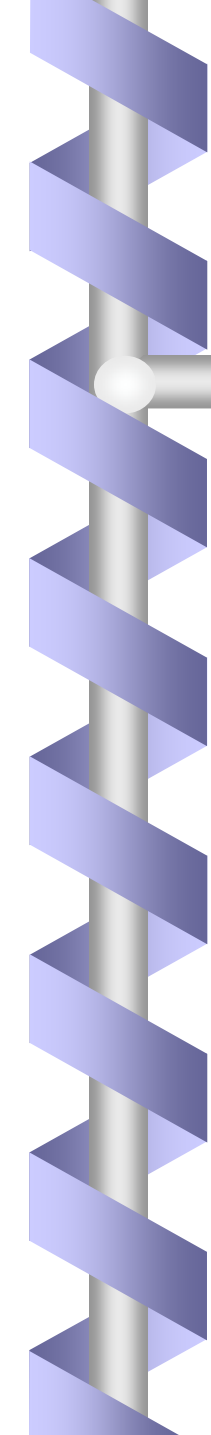
• Departmental Audits:

- **assess the adequacy of the internal control environment**
- **Assess the effectiveness of the internal control environment and compliance with University and Sponsor Policies, Procedures and Requirements**
- **Assess the operational efficiency and effectiveness of the unit's administration**



Objective 1 - Adequacy of Internal Controls

- **identify control weaknesses**
 - **missing control procedures**
 - **incompatible combinations of duties**
 - **control awareness among staff**



Objective 2 - Compliance

- ❁ **compliance with University policies and procedures**
- ❁ **compliance with funded research sponsor guidelines**
- ❁ **compliance with statutory requirements**
- ❁ **compliance with identified control procedures/practices**



Objective 3 - Efficiency and Effectiveness

- ❁ **Identification of redundant or inefficient administrative processes**
- ❁ **Identification of needs for additional training and skills updating**
- ❁ **Importing of best practices**



Fraud and Financial Impropriety

- **According to most fraud experts :**
 - **10 - 20% of employees would never commit fraud**
 - **60 - 80% of employees would commit fraud if the conditions were right**
 - **10 - 20% of employees will commit fraud if they find an opportunity**



Fraud and Financial Impropriety

• How to safeguard against it:

- Review and Reconciliation
- Adequate supervision
- Segregate inappropriate combinations of duties