Fac. of Applied Science and Engineering Presentation

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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
- 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 P0s
  - 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