

ADMINISTRATIVE DIVISION BTRU Board of Trustees		POLICY NUMBER BTRU 1.24
POLICY TITLE Internal Control Policy		
SCOPE OF POLICY USC System		DATE OF REVISION August 17, 2018
RESPONSIBLE OFFICER Secretary of the Board of Trustees		ADMINISTRATIVE OFFICE Board of Trustees

PURPOSE

The purpose of this policy is to communicate to the University of South Carolina community the internal control objectives of the Board of Trustees.

DEFINITIONS AND ACRONYMS

Internal control is a process, effected by the board of trustees, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

This definition reflects certain fundamental concepts. Internal control is:

- Geared to the achievement of objectives in operations, reporting and compliance.
- A process consisting of ongoing tasks and activities; a means to an end, and not an end unto itself.
- Effected by people at every level of the organization; not about policies and forms though it takes shape through the implementation of relevant policies, procedures, and practices.
- Able to provide reasonable assurance; but no system of control can provide absolute assurance to the Board of Trustees and other users of financial information.
- Adaptable to the entity structure; flexible in application for the entire entity or for a particular operating unit or business process.

Internal control consists of five integrated components:

1. Control Environment: The control environment is the set of standards, processes, and structure that provides the basis for carrying out internal control across the organization. The board of trustees and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. Management reinforces expectations at the various levels of the organization.
2. Risk Assessment: Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives.

3. Control Activities: Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out.
4. Information and Communication: Information and communication is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives.
5. Monitoring Activities: Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning.

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POLICY STATEMENT

The Board of Trustees expects the University administration to effect an internal control environment with policies and procedures necessary to provide reasonable assurance that practices cause effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. The system of internal control is meant to keep the University on course toward its mission and to minimize surprises.

The University administration has the responsibility to establish and maintain an adequate system of internal control and to furnish to the Board of Trustees of the University, governmental agencies, University creditors and other constituencies reliable financial information on a timely basis. An adequate system of internal control is necessary for the administration to discharge these responsibilities.

Controls help ensure that assets are not exposed to unauthorized access and use, transactions are properly recorded in the financial records, and the resultant financial information is reliable. External organizations and supporters of the University rely on financial information to make decisions toward appropriations, loans and other debt, gifts and grants, and other contractual relationships. University resources are dependent upon the system of internal control. Auditors are required annually to report upon the adequacy of the University's systems for control over financial reporting and compliance. The safeguarding of University assets and the reliability which the University and others can place upon its financial records is dependent upon the effectiveness of the internal control process.

PROCEDURES

A. Responsibility

1. The Board of Trustees is responsible for setting the institutional expectations for internal control, ensuring management is aware of those expectations, requiring the upward communications channels are open through all levels of management, and evaluating management's effectiveness toward monitoring the control environment and implementing sound control policies and procedures.
2. Individuals with delegated approval authority, e.g. vice presidents, deans, directors, and department chairs, are responsible for establishing, maintaining, and supporting a system of internal controls within their areas of responsibility and for creating the control environment that encourages compliance with university policies and procedures.
 - a. Adequate supervision is necessary to monitor that internal controls are operating as intended, and to help ensure the reliability of accounting and operational controls by pointing out errors, omissions, exceptions, and inconsistencies in procedures.
 - b. Faculty and staff in leadership roles are responsible for the application of this policy and the design, development, implementation, and maintenance of systems of internal controls focusing on the effectiveness of operations and the safeguarding of assets within their respective areas of responsibility.
 - c. All levels of management and supervision are responsible for strengthening internal controls when weaknesses are detected. Department managers should periodically review departmental procedures to ensure that the general principles of internal control are being followed.
3. The Controller's Office has the primary responsibility for internal control over financial reporting and compliance with applicable laws, rules, and regulations. The Controller is the University source for information and assistance to faculty and staff leadership on this topic and will make resources available to any business function on campus to assist in administering this policy.
4. The Division of Human Resources is responsible for internal controls over employee recruitment, hiring, separation, promotion, job classification, employee rights, and salary administration. The Vice President for Human Resources is the University source for information and assistance to faculty and staff leadership on this topic and will make resources available to any business function on campus to assist in administering this policy.
5. Audit & Advisory Services is responsible for reviewing the adequacy of departmental and institutional internal controls and for reporting any weaknesses to the appropriate campus management and the Board of Trustees.

6. All levels of internal control are subject to examination by external auditors who are required to report on the adequacy of internal controls over finance and compliance.
 7. Department managers are responsible for prompt corrective action on all internal control findings and recommendations made by internal and external auditors. The audit process is completed only after managers receive the audit results and take action to correct internal control weaknesses, improve systems, or demonstrate that management action is not warranted.
 8. Faculty and staff in leadership positions have the responsibility to ensure that those who report to them have adequate knowledge, skills, and abilities to function within, and contribute to, an effective internal control environment. This includes providing access to appropriate training on topics relevant to their job responsibilities.
- B. The University administration will establish and maintain a system of internal controls that satisfies the University's objectives in the following categories:
1. Risks are identified and effectively managed
 2. Safeguarding of University assets
 3. Reliability and integrity of financial information
 4. Compliance with University policies, plans, procedures, laws and regulations
 5. Economical and efficient use of University resources
 6. Meeting established objectives and goals for University operations and programs.
- C. General internal control principles for campus units are:
1. Separation of duties
 - a. Duties are separated so that one person's work routinely serves as a check on another's work.
 - b. No one person has complete control over more than one key function or activity (e.g., authorizing, approving, certifying, disbursing, receiving, or reconciling).

2. Authorization and approval
 - a. Proposed transactions are authorized when proper and consistent with University policy and the department's plans.
 - b. Transactions are approved by the person who has delegated approval authority, which is usually delegated on the basis of special competency or knowledge.
 3. Custodial and security arrangements
 - a. Responsibility for physical security/custody of University assets is separated from record keeping/accounting for those assets.
 - b. Unauthorized access to University assets and institutional data is prevented.
 4. Timely and accurate review and reconciliation
 - a. Departmental accounting records and documents are examined by employees who have sufficient understanding of the University accounting and financial systems to verify that recorded transactions actually took place and were made in accordance with University policies and procedures.
 - b. Departmental accounting records and documentation are compared with University accounting system reports and financial statements to verify their reasonableness, accuracy, and completeness.
 5. The general internal control principles should be applied to all departmental operations, especially accounting records and reports, payroll, purchasing/receiving/disbursement approval, equipment and supply inventories, cash receipts, petty cash and change funds, billing and accounts receivable.
- D. All campus systems, processes, operations, functions, and activities are subject to evaluations of internal control systems. The results of these evaluations provide information regarding the University's overall system of control.
- E. Information and communication – information must be timely and communicated in a manner that enables people to carry out their responsibilities.
1. All personnel must receive a clear message from the University's administration that control responsibilities are to be taken seriously. Failure to comply with established practices will subject individuals to the terms of disciplinary action or dismissal described in USC Policy HR 1.39.

2. Employees must understand their own roles in the internal control system, as well as how individual activities relate to the work of others. To this end, whenever a new budgetary unit, financial activity, research project, etc. is set up, the Controller will provide notification to the appropriate parties of the responsibilities incumbent on them for good business practices and sound financial management, including reference to the principles within this policy.
 3. Employees must have a means of communicating significant information to the University's administration.
 4. The University must communicate effectively with external parties, such as students, parents, funding providers, contractors, suppliers, regulators and other stakeholders.
- F. Internal control is meant to keep the University focused on achieving its mission while avoiding surprises. There is a balance between effective controls and mission accomplishment. Costs associated with internal controls should not exceed their benefit, nor should controls be allowed to stifle mission effectiveness and timely action. All levels of management must assess the costs, benefits, and risks when designing controls to develop a positive control environment and compensate for the risks of non-compliance, loss of assets, or unreliable reporting while accomplishing the University mission.

HISTORY OF REVISIONS

DATE OF REVISION	REASON FOR REVISION
June 30, 2011	New policy approval
April 24, 2015	Policy organization, content, and accuracy reviewed with the addition of risk management to the objectives of the system of internal controls and scrivener corrections made.
August 17, 2018	Reviewed and updated definitions. The policy also was reformatted into the new policy template.