

<b>ADMINISTRATIVE DIVISION</b> BTRU Board of Trustees		<b>POLICY NUMBER</b> BTRU 1.24
<b>POLICY TITLE</b> Internal Control Policy		
<b>SCOPE OF POLICY</b> USC System		<b>DATE OF REVISION</b> August 18, 2023
<b>RESPONSIBLE OFFICER</b> Secretary of the Board of Trustees		<b>ADMINISTRATIVE OFFICE</b> Board of Trustees

**PURPOSE**

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

**DEFINITIONS AND ACRONYMS**

Internal control is a process, affected 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 one event unto itself.
- Affected 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 and operational 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 are carried out.
4. Information and Communication: Information and communication of internal control procedures and responsibilities is necessary for the entity 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 is present and functioning.

Reproduced with permission of American Institute of Certified Public Accountants, *Internal Control– Integrated Framework* (2013), 3-5.

## **POLICY STATEMENT**

The Board of Trustees expects the University system's administration to affect 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 system on course toward its mission and to minimize surprises.

The University system's administration has the responsibility to establish and maintain an adequate system of internal control and to furnish to the Board of Trustees, governmental agencies, University system's 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 system rely on financial information to make decisions toward appropriations, loans and other debt, gifts and grants, and other contractual relationships. University system resources are dependent upon the system of internal control. Auditors are required annually to report upon the adequacy of the University system's internal controls over financial reporting and compliance. The safeguarding of assets and the reliability which the Board of Trustees, administration, management, and others can place upon the University system's 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., chancellors, 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 U
3. niversity system 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.
4. 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 niversity system's 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. 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 system's 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.
6. Audit & Advisory Services is responsible for reviewing the adequacy of the University system's internal controls and for reporting any weaknesses to the appropriate leadership and the Board of Trustees.
7. 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.

8. Management is 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.
  9. 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. Administration will establish and maintain a system of internal controls that satisfies the University system's objectives for the following:
1. Risks are identified and effectively managed
  2. Safeguarding of University assets
  3. Reliability and integrity of financial information
  4. Compliance with policies, plans, procedures, laws, and regulations
  5. Economical and efficient use of resources
  6. Meeting established objectives and goals for operations and programs.
- C. General internal control principles 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 policy and the unit's objectives.

- b. Transactions are approved by the person who has delegated approval authority, which is usually delegated based on special competency or knowledge.
  - 3. Custodial and security arrangements
    - a. Responsibility for physical security/custody of assets is separated from record keeping/accounting for those assets.
    - b. Unauthorized access to assets and institutional data is prevented.
  - 4. Timely and accurate review and reconciliation
    - a. Unit accounting records and documents are examined by employees who have sufficient understanding of the accounting and financial systems to verify that recorded transactions took place and were made in accordance with policies and procedures.
    - b. Unit accounting records and documentation are compared with accounting system reports and financial statements to verify their reasonableness, accuracy, and completeness.
  - 5. The general internal control principles should be applied to all operations, especially accounting records and reports, payroll, purchasing/receiving/disbursing approval, equipment and supply inventories, cash receipts, petty cash and change funds, billing, and accounts receivable.
- D. All systems, processes, operations, functions, and activities are subject to evaluations of internal control processes. The results of these evaluations provide information regarding the overall system of internal 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 system’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 policy [HR 1.39 Disciplinary Action and Termination for Cause](#).
  - 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, the Controller’s Office will inform appropriate parties about their responsibilities 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 system’s administration.

4. Administration 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 system 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 system’s mission.

**HISTORY OF REVISIONS**

<b>DATE OF REVISION</b>	<b>REASON FOR REVISION</b>
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.
August 16, 2019	Scrivener corrections.
August 14, 2020	Scrivener corrections including more accurately referencing the university system.
August 20, 2021	Changes made reflect current practice in informing employees of their internal control responsibilities as it relates to financial management.
August 19, 2022	Clarification of applicable policies and scrivener corrections.
August 18, 2023	Reviewed and no changes made.