What are proper internal controls?

Internal controls are methods employed to assure that departments/processes operate according to policies and procedures and to safeguard university assets. They also allow managers to administer current operations and plan for the future. Properly applied, good internal control procedures reduce the risks associated with undetected errors or irregularities and help departments operate more efficiently and effectively. Some examples of internal controls are:

1. Developing written departmental policies and procedures to encourage compliance
2. Receipting incoming funds on pre-numbered university receipts
3. Proper segregation of duties
4. Reviewing monthly budget statements and daily purchase reports

What does “segregation of financial duties” mean?

Accountants have a saying that “all fraud is committed by those we trust.” It’s not necessary to go around spying on everyone who works for your department. All that needs to be done is to ensure that enough people (as few as two) are involved in the handling of funds received so that each employee feels protected. This is called segregation of duties. Segregation of duties is one of the most effective internal controls. It just means that no one person should be responsible for doing everything. Authorization, recording, and custody of assets should be performed by different employees. Different employees should:

- Collect incoming funds
- Prepare cash receipts/reports
- Approve deposits
- Reconcile funds deposited to funds due

In most cases, ideal segregation of duties is not possible due to limited number of employees in a department. In such cases, compensating controls should be established, which may include more supervision, monitoring, and involvement of

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departmental management in the process. Illustrated below is an example of adequate segregation of duties for the cash receipting process in a two person office.

What is “timely reconciliation” of an account?

Reconciling an account just means making sure that what you think you have in the account is what you actually have. It is mainly a mechanical process and works just like balancing your personal checkbook.

- Make sure all funds due to the University are *properly* deposited into the *correct account*.
- *Always* retain the receipt from a deposit.
- Check SAP or monthly budget statements for accuracy.
- Make sure *all* charges belong to your department.

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