



DFA Conversations – Office of the University Controller

Internal Control Program

November 20, 2017

Introduction

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To discuss internal controls and a strengthening of our current *Internal Control Framework*.

Strong Internal Controls

- Process designed to gain **reasonable assurance regarding the accomplishment of the university's objectives** in:
 - Operational effectiveness and efficiency,
 - Reliable financial reporting,
 - Compliance with laws and regulations,
 - Cost savings.

Strong Internal Controls

- Identify unnecessary or redundant processes,
- Prevent and detect fraud,
- Prevent and detect human error.

Effective Internal Control Program

- Cornell's Board of Trustees governance and oversight responsibilities require it.
- State University of New York requires an annual Internal Control Certification Form for the Contract Colleges, signed by the university president.
- Our donors, research sponsors, regulatory agencies, investors, rating agencies, and the public expect it.
- An effective system of internal control is a key part of “good management practices.”

Committee Of Sponsoring Organizations Framework

- **Control Environment,**
- Risk Assessment,
- Control Activities,
- Information and Communication,
- Monitoring Activities.



The Control Environment Principles

The organization demonstrates a commitment to integrity and ethical values:

- Annual reminder email from the president about standards of ethical conduct and hotline information for reporting issues,
- Newly approved whistleblower protection policy,
- University policies on standards of ethical conduct, conflicts of interest, financial irregularities, data stewardship and information security, and many others.

The Control Environment Principles

The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control

- Through its committee structures, specifically audit committee, finance committee and the university auditor, the board remains independent yet informed.
- The board requires deans and vice presidents to annually attest via the Sarbanes-Oxley sub-certification process.

The Control Environment Principles

Management establishes—with board oversight—structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

- University policies on transaction authority and payment approval, etc.
- Central oversight of high risk areas such as investments, restricted gifts, and sponsored funds, for example.

The Control Environment Principles

The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.

- Search committees and background checks for key positions,
- Annual performance dialogue process and supervision.

The Control Environment Principles

The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

- University policies on standards of ethical conduct, conflicts of interest, financial irregularities, data stewardship and information security, record retention, and disciplinary processes when policies are not followed.

Committee Of Sponsoring Organizations Framework

- Control Environment,
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The Control Environment Principles

What it really means:

- “Tone at the top” and all the way down through the organization, everyone is deeply committed to personal ethical behavior and to safeguarding the assets and reputation of the university.
- All employees are willing to report instances of behavior that potentially violates policy, law, or regulation.

Risk Assessment Principles

The university specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives:

- Achieving the operational and financial results established in the annual operating budget,
- Complying with external reporting standards, i.e., Uniform Guidance and GAAP.

Risk Assessment Principles

The university identifies risks to its achievement of its objectives and determines how to manage these risks:

- University has established an Institutional Risk Management Assessment (IRM), which prioritizes identified risks based on their potential impact on the university progress toward achieving its goals,
- The IRM will be utilized to determine which areas warrant more control procedures and which require less.

Risk Assessment Principles

The university considers the potential for fraud in assessing risks. It considers the potential motivations on fraudulent activities:

- Incentives and pressures,
- Attitudes, opportunities, and rationalizations.

Risk Assessment Principles

The university assesses changes that could impact the system of internal controls:

- External environment (cyber attacks),
- Business model (international campuses),
- Leadership changes (tone at the top).

Committee Of Sponsoring Organizations Framework

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Control Activities Principles

- Select and develop control activities that mitigate risk to acceptable levels,
- Select and develop control activities over technology,
- Deploy control activities through policies that establish what is expected and procedures that put policies in action.

Control Activities Principles

Key Internal Control Activities

- **Segregation of Duties** - Duties are divided among different employees to reduce the risk of error or inappropriate actions.
- **Authorization and Approval** - Transactions should be authorized and approved to help ensure the activity is consistent with **departmental** or institutional goals and objectives.
 - It is important that the person who approves transactions has the **authority** to do so and the necessary **knowledge** to make informed decisions.

Control Activities Principles

Key Internal Control Activities

- **Reconciliation and Review** - Reconciliation involves cross-checking transactions or records of activity to ensure that the information reported is accurate.
- **Physical Security** - Equipment, inventories, cash, checks, and other assets should be physically secured and periodically counted and compared with amounts shown on control records.

Control Activities Principles

Specific Control Activities

- **Vendor Fraud** – importance of due diligence in setting up new vendors, being aware of and preventing corruption schemes, improper payments and kickbacks, conflicts of interest, and gifts and gratuities to company employees. Verify receipt of goods and/or services before releasing payments.
- **Payment Fraud from Electronic Payments**- bank accounts and bank routing numbers need to be protected. Bank accounts need to be regularly reconciled.

Control Activities Principles

Specific Control Activities

- **Document Review** - Invoices are reviewed for accuracy and completeness. Items billed are compared to a purchase order before the invoice is processed for payment.
- **Reconciliation** – Reconciliation is the process of comparing an account balance in an organization's general ledger to an account balance in a document, either internal or external, where the amounts should match.

Committee Of Sponsoring Organizations Framework

- Control Environment,
- Risk Assessment,
- Control Activities,
- **Information and Communication,**
- Monitoring Activities.



Information and Communication



“Decisions are only as good as the information on which they are based.”

<http://svetlana.dbsdatapoints.com/2015/07/18/data-quality-the-core-of-analytics/>

Information and Communication Principles

- The university obtains or generates and uses relevant, quality information to support the functioning of other components of internal control.
- The university internally communicates information, including objectives and responsibilities for internal control, necessary to support the function of other components of internal control.
- The university communicates with external parties regarding matters affecting the functioning of other components of internal control.

Information and Communication Model

Identify → Capture → Process → Maintain



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graph LR; Identify --> Capture; Capture --> Process; Process --> Maintain;
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Information and Communication Data Sources



Information and Communication Toolkit



ORACLE
BUSINESS INTELLIGENCE



COGNOS



Committee Of Sponsoring Organizations Framework

- Control Environment,
- Risk Assessment,
- Control Activities,
- Information and Communication,
- **Monitoring Activities.**



Monitoring Activities Principles

Monitoring activities are implemented to help ensure that internal controls continue to operate effectively and efficiently.

There are two fundamental principles:

Monitoring Activities Principles

The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning. This includes:

- Post audit review of transactions,
- Selections based on a percentage of volume or materiality,
- Periodic evaluation and testing based on process narratives,
- Random requests of reconciliations,
- Supervisory review of controls.

Monitoring Activities Principles

Post audit review of transactions will be a point of emphasis in the enhanced internal control framework. Utilizing technologies such as ACL, Tableau, etc. we can evaluate all transactions more efficiently for errors or fraudulent activities.

- Will end up reviewing a much smaller percentage of transactions,
- This review will not hamper or slow down transaction processing.

Monitoring Activities Principles

The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action:

- Dean/vice president, unit business officer, and the controller,
- Board of trustees and audit committee.

Monitoring Activities Principles

Benefits

- Identify and correct internal control problems on a timely basis,
- Produce more accurate and reliable information for use in decision making,
- Prepare accurate and timely financial statements,
- Over time, leads to efficiencies and reduced costs.

The Control Environment

TONE AT THE TOP

In this framework, unit leaders (deans and VPs) are primarily responsible for ensuring strong internal controls within their units.

These leaders are responsible for transactions that affect the financial statements, processed four to five layers down.

Perform a Risk Assessment

Analyze transaction cycles and assess the risk that fraud or a **material** financial misstatement could occur.

- The riskiest areas have been identified in the IRM,
- For these areas, we will have a higher level of awareness for the possibility of fraud and/or misstatement.

Perform a Risk Assessment

For all other areas not identified in IRM:

Units will work with DFA and develop a customized internal control plan (ICP)

- Assess unit specific risks (e.g., cash handling)
- Set a relevant materiality level (e.g., .5% of expenses)

Reduce the level of controls and allow for managerial discretion

- Increase efficiencies
- Reduce administrative burden

Partnership – Clearly Delineated Roles and Responsibilities

DFA

- Develop internal control policy and framework,
- Work with units and internal audit to develop a unit-specific, customized ICP,
- Train employees as requested by the unit.

Partnership – Clearly Delineated Roles and Responsibilities

Business Units

- Work with DFA and internal audit to develop a unit-specific, customized ICP,
- Set a tone at the top that emphasizes adherence to the internal control plan,
- Make staff available for training.

Partnership – Clearly Delineated Roles and Responsibilities

Internal Audit

- Work with units and DFA to develop a unit-specific, customized ICP.
- Monitor compliance to the ICP.
- Identify weaknesses in internal controls.

Revamp Sox Certification Process

Remove questions like this:

“Does your unit have any financial obligations/liabilities to external entities, in excess of \$25,000, that **have not been properly disclosed or reported?**”

Revamp Sox Certification Process

In favor of questions like this:

“Does your unit have practices and procedures to help ensure employees have knowledge of and comply with Cornell’s published policies?”

Revamp Sox Certification Process

And hopefully receive responses like this:

“On an annual basis, CIT requires employees to sign an attestation that they have knowledge of and comply with Cornell’s policies.”

Revamp Sox Certification Process

File Tools View

Access to Confidential Data and Information - v2 [Read-Only] - Word

I understand that in the course of my employment at Cornell I may have access to confidential data/information about or belonging to Cornell University. I further understand that by accessing or storing this data/information I am in effect the custodian of it and that I am responsible for adequately protecting its security and confidentiality. I also understand that I have an obligation to adhere to all relevant state and federal laws, University policies, the Campus Code of Conduct and any relevant 3rd party agreements when using data/information that I have access to in the scope of my employment. Some specific University policies are listed below:

- Cornell University Policy 4.6, Standards of Ethical Conduct
www.dfa.cornell.edu/treasurer/policyoffice/policies/volumes/governance/ethical.cfm
- Cornell University Policy 4.7, Record Retention Policy
www.dfa.cornell.edu/treasurer/policyoffice/policies/volumes/governance/retention.cfm
- Cornell University Policy 4.12, Data Stewardship and Custodianship
www.dfa.cornell.edu/treasurer/policyoffice/policies/volumes/governance/data.cfm
- Cornell University Policy 5.10 Information Security of Institutional Information
www.dfa.cornell.edu/treasurer/policyoffice/policies/volumes/informationtech/admininfo.cfm

Refer to <http://www.policy.cornell.edu/PolicyHome.cfm> for additional relevant policies.

I will not disclose confidential data/information to any unauthorized person without prior permission from my supervisor and will take all reasonable precautions to prevent its disclosure to unauthorized persons. I understand that I have an obligation to check with my supervisor if there is any doubt whether information/data is confidential before I share it with anyone.

I will not:

- access, use, discuss or disclose confidential data/information except to the extent necessary to perform my job

- access, change, use or disclose confidential data/information for the personal gain of others or myself
- access, change, use or disclose data/information involving me or a family member

I agree that upon request by Cornell, or upon termination of my employment for any reason, I will immediately provide to Cornell all copies and versions of confidential data/information in my possession and/or control.

If I ever feel pressured by anyone to use the information to which I have access in a way that may violate this agreement, I will report my concern immediately to my supervisor or to the Cornell University Hot Line at 1-866-293-3077 or https://secure.ethicspoint.com/do-main/en/report_custom.asp?clientid=6357. I understand that my report will be kept as confidential as possible and I will be protected from any retaliation as a result of my report.

Signature

I acknowledge that I am bound by university policies as well as applicable federal, state, and local laws. I understand that a violation of these policies or laws could result in disciplinary action up to and including termination. I agree to be bound by this agreement even after termination of my employment with Cornell.

Signature _____ Date _____

Print Name _____

End of document ■

Revamp Sox Certification Process

Review Distribution of Documents or Tasks 2017 CIT Annual Confidentiality Attestation:Shannon Marie Osburn Actions



12 second(s) ago

Document Link [CIT Confidentiality Attestation](#)

Instructions

- (1) Click the "CIT Annual Attestation" link above.
- (2) Review the signature statement, university policies, and operational procedures for handling confidential data.
- (3) Return to this page, and click "I agree," below.
- (4) At the bottom of this page, click "Submit."

Signature Statement By clicking "I Agree" in Workday, you are acknowledging that you are bound by university policies as well as applicable federal, state, and local laws. You understand that a violation of these policies or laws could result in disciplinary action up to and including termination. You agree to be bound by this agreement even after termination of your employment with Cornell. (Contact information for questions is available in the annual attestation.)

I Agree



enter your comment

Take Away

- Internal controls are established to increase efficiencies and help us realize our objectives.
- We utilize the Institutional Risk Management Assessment as the guide for how we prioritize our internal control efforts.
- There has to be a partnership between the units, DFA, and internal audit.

QUESTIONS/COMMENTS