

Doane University Internal Control Policy

OVERVIEW

This policy sets forth guidelines to provide a system of internal controls and communicates the objective of internal controls, which enables the University to fulfill its fiduciary obligations and operating responsibilities. Doane is committed to maintaining internal controls to focus on achieving its mission and objectives, while identifying positive opportunities and avoiding negative consequences.

Based on their areas of responsibility and position within the university, all employees will play a role in designing, implementing, adhering to, monitoring and revising as necessary, Doane's system of internal controls.

PURPOSE and SCOPE

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 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.

Within Doane University, a number of groups and individuals play key roles in designing, implementing, monitoring, and adjusting internal controls.

RESPONSIBILITY

The roles of key parties and areas of accountability for internal control are provided below.

- A. The Board of Trustees has the responsibility for setting the institutional expectations for internal control, ensuring management is aware of those expectations, requiring communication channels to be open through all levels of management, and evaluating management's effectiveness at practicing an effective internal control environment and implementing effective internal control policies and procedures.

- B. Management control is the first line of defense in risk management. Individuals with delegated approval authority, e.g., president, vice presidents, deans, directors, and department chairs, are responsible for establishing, maintaining, and supporting a system of internal controls within their areas of responsibility, for creating the control environment which directs compliance with university policies and procedures, and for setting a strong “tone at the top” in terms of leading by example.
- C. Management and supervision, including proactive oversight, is necessary to ensure that internal controls are operating as intended and to ensure the reliability of accounting and operational controls by pointing out errors, omissions, exceptions, and inconsistencies in procedures. This supervision is required regardless of whether the controls are performed by internal personnel or by an external service provider.
- D. Faculty and staff in leadership positions have the responsibility to ensure that those who report to them have knowledge, skills, and abilities to function within and contribute to an effective internal control environment. This includes providing access to appropriate training on topics pertaining to employees’ job responsibilities and job classification. As requested, the Business Office controller staff is available to assist in providing training on internal controls and related frameworks and processes.
- E. All levels of management and supervision are responsible for strengthening internal controls when weaknesses are detected. Department managers should periodically review and update departmental procedures to ensure that the general principles of internal control are continuing to be followed.
- F. The Business Office has the primary responsibility for designing and implementing internal controls over financial reporting and compliance with applicable laws, rules, and regulations. The Business Office is the university source for information and assistance to faculty and staff leadership on this topic.
- G. The Human Resources Department (HR) is primarily responsible for designing and implementing internal controls designed to prevent disparate treatment and to provide fair and equitable treatment over employee recruitment, hiring, separation, promotion, job classification, employee benefits, salary administration, and paying employees. HR is the university source for information and assistance to faculty and staff leadership on this topic.
- H. Information Technology Services (IT) is primarily responsible for establishing internal controls relating to the design of information technology infrastructure, security management, network intrusion detection, and information technology acquisition,

development, and maintenance. IT will also assist end users and data owners in developing system, data, file, and program access controls.

- I. External auditors also provide independent assurance and review the adequacy of all levels and types of internal controls over finance and compliance and may provide recommendations or require the university to take corrective actions.
- J. Department managers are responsible for performing prompt corrective action and documenting where necessary on all internal control findings and recommendations made by the Business Office controller function and external auditors. The Controller or Assistant Controller will work with department managers and other parties to provide guidance relating to remediation efforts for recommendations made by external auditors.

KEY PROCESSES

1. Internal Control Development Process

Management is responsible for the design and implementation of internal controls which expedite decision-making and enhance performance by:

- Providing reliable data
- Safeguarding assets and essential records
- Promoting process consistency, operational efficiency and customer satisfaction
- Encouraging adherence to management policies, regulatory compliance, and funding source requirements

Management must assess the costs, benefits, and risks associated with its mission and objectives when designing and implementing controls to develop an internal control environment. The intent should be to reduce inherent risk to a manageable level of residual risk consistent with the university's risk tolerance.

Management is also responsible for selecting efficient and effective internal controls. For example, the frequency with which a control needs to be performed and the appropriate timing of performance should be considered. Also, any potential unintended consequences, such as impact to other departments or external stakeholders, should be evaluated prior to implementation.

Costs associated with internal controls should not exceed the risk mitigation benefit, nor should excessive controls be implemented to suppress mission effectiveness, objective achievement, customer satisfaction, and timely action.

Periodic review should be performed to verify that all of these factors remain in balance.

2. Internal Control Communication Process

Once internal controls are designed and implemented, management should take proactive steps to communicate this information to individuals directly involved in performing the control, along with individuals from other areas that will be impacted by control.

Failure to inform impacted parties and increase awareness of the existence of and required compliance with internal controls can lead to risk scenarios and negative implications similar to those from not designing and implementing internal controls at all.

KEY CONTROL ACTIVITIES

Listed below are a number of control activities that management must consider when developing and implementing relevant processes.

- a. Separation of Duties.** Individual duties are separated so that one person's work routinely serves as a complementary check on another person's work. No one person has complete control over more than one key processing function or activity, such as authorizing, approving, certifying, disbursing, receiving, or reconciling. Separation of duties provides necessary checks and balances to detect error and prevent concealment of irregularities. This process includes both physical controls and system access controls.
- b. Authorization and Approval.** Proposed transactions are authorized when they are proper and consistent with university policy and the university's plans. Transactions are approved by the person delegated approval authority. Approval authority is usually conferred on the basis of some special knowledge or competency and may be electronic or in writing. The timing of authorization and approval is typically prior to the activity or transaction taking place to make it a preventive control.
- c. Supporting Documentation.** Relevant documents exist to support and provide complete information about transactions. Documentation may be printed or electronic and should be sufficient to clearly explain the transaction to someone, for example an auditor, inquiring about it at a later date. Documentation

minimizes the risk of penalties and fines due to unsubstantiated transactions. Document retention policies are also an important part of meeting all legal, regulatory, and industry best practice guidelines for retaining supporting documentation.

- d. Supervisory Review.** Supervisors are required to review and compare actual revenue and expenditures to budgets on a regular basis to assure fiscal accountability. Supervisors must be satisfied that they have first-hand knowledge or sufficient documentation to confirm that transactions are reasonable, necessary, and appropriate; have been charged to the correct department or project; and were properly authorized and approved by their department. In addition, management should compare actual performance to planned or expected results throughout the department or university and analyze significant differences.
- e. Reconciliation.** Reconciliation is the process of comparing transactions and activity to supporting documentation; it ensures the accuracy and validity of financial information and that unauthorized changes have not occurred to transactions during processing (e.g., an unauthorized credit card refund). Further, reconciliation involves resolving any discrepancies that may have been identified.
- f. Physical Security.** University assets and records should be kept secure at all times to prevent unauthorized access, theft, loss, or damage. The security of assets and records is essential for ongoing operations, accuracy of information, and privacy of personal information included in some records, and in many cases is a state or federal law.
- g. System and Application Security.** Access to automated Doane systems, applications, servers, databases, shared drives, and other automated or electronic resources should be based on need to perform required duties as designated by job title, job grade, administrative level access requirements, or internal control procedure documentation. Access should be designated and periodically monitored initially to determine whether it is still required as a person's role changes; access should be removed for individuals who leave the university or transfer to a different department or function.
- h. Policies and Procedures.** Policies are the guidelines that ensure consistency and compliance with the university's strategic direction. Procedures define the specific instructions necessary to perform a task or part of a process. Together, policies and procedures ensure that a point of view held by the Board of Trustees is translated into steps that result in an outcome compatible with that view.

- i. **Training.** Employees should be properly trained and informed of departmental procedures, including those related to internal controls. Relevant and proper training allows for increased employee performance, improved personnel management, and higher levels of employee retention.
- j. **Performance Evaluation.** Supervisors meet at least annually with their direct reports to discuss an overall assessment of each employee's performance over the previous 12 months, to verify that the employee's job description accurately reflects the responsibilities of the position, to identify goals that have been met and those where additional effort may be required, and to identify performance, achievement, and development goals for the upcoming year.

SUMMARY

A well designed internal control system, which is utilized, cannot prevent errors, but can reduce the probability of their occurrence and/or lack of detection. Many audit findings are due to lack of internal controls - or controls that are not followed.

September 1, 2016

Ratified by the Board of Trustees on October 7, 2016