Policy

UNIVERSITY POLICY FIN-13.01-06/21

TO: The University of West Florida Community

FROM: Dr. Martha D. Saunders, President

SUBJECT: University Policy on Internal Controls

Responsible Office/Executive: Vice President, Finance & Administration

I. Applicability

This policy applies to the entire University community, including direct support organizations (DSOs).

II. Purpose

The Board of Trustees and the President of the University of West Florida (UWF) are committed to a solid structure of internal controls. UWF considers internal controls to be crucial in providing reasonable assurance regarding the safeguarding of University assets and the achievement of operational goals. Internal control is a process, effected by the University's board, administration, and other personnel, designed to provide reasonable assurance regarding the achievement of management's objectives relating to operations, performance reporting, and compliance. Within UWF, several groups and individuals play key roles in designing, implementing, monitoring, and adjusting internal controls. This policy informs all UWF employees of their responsibility to ensure compliance with the established system of internal controls.

As discussed in its 2013 position paper, *The Three Lines of Defense in Effective Risk Management and Control,* the Institute of Internal Auditors notes that:

1. Management control is the first line of defense in risk management. Management sets the "tone at the top" and makes the final decisions on internal control design and implementation.
2. The second line of defense is the various risk control and compliance oversight functions established by management to assist them by providing subject matter expertise, regulatory interpretation, and oversight, along with policy and procedure development.
3. The third line of defense is delivered by internal and external audit functions. Their role is to provide independent assurance on the effectiveness of internal controls and to evaluate whether there are opportunities for internal controls to more effectively and efficiently achieve objectives and manage risk.

III. Policy Statement

UWF is committed to maintaining appropriate internal controls to stay focused 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 play a role in designing, implementing, adhering to, monitoring, and revising as necessary, UWF's portfolio of internal controls.

IV. Definitions

A. **Internal Control.** A process, effected by the UWF Board of Trustees, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

B. **Enterprise Risk Management.** Enterprise risk management is a process, effected by an entity's board of directors, management, and other personnel, applied in a strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

V. Components of Internal Control

Internal control consists of five interrelated components derived from basic University operations and administrative processes as follow:

A. **Control Environment** - The core of any educational institution is its people. They are the engine that drives the organization. Their attributes (integrity, ethical values, and competence) and the environment in which they operate determine the success of the institution.

B. **Risk Assessment** – The University community must be aware of and deal with the risks they face. They must set objectives that integrate key activities so the total organization operates in concert. They must establish mechanisms to identify, analyze, and manage the related risks.

C. **Control Activities** - Control policies and procedures must be established and executed to help ensure that actions necessary to achieve the institution's objectives are effectively carried out.

D. **Information and Communication** - Surrounding these activities are information and communication systems. These enable the organization's people to capture and exchange the information needed to conduct, manage, and control its operations.

E. **Monitoring** - The entire process must be monitored and modified as necessary. Thus, the system can react dynamically to changing conditions.

VI. Roles and Responsibilities

Clarification on the roles of key parties and areas of accountability for internal control is provided below.

A. The **Board of Trustees** has been assigned responsibility by the Board of Governors 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. **Deans, Directors, and Department Head** All heads of departments and activities are responsible for assessing risk and designing and operating the controls in the area for which they are responsible. Controls should be designed to foster the following traditional objectives: safeguard assets, mitigate risk, ensure the proper recording of financial transactions, generate accurate and timely financial information, and promote operational efficiency. The policies and procedures adopted to satisfy these requirements will be in writing.

C. **Associate Vice President and Controller.** The Associate Vice President and Controller will conduct an annual assessment of the functionality and cost-effectiveness of internal control systems, providing reasonable assurance of the integrity of all financial processes related to the submission of transactions to the University's general ledger, submission of financial statement directive materials, compliance with laws and regulations, and stewardship over the University's assets.

D. To maintain the accuracy and completeness of the University's accounting records, the Associate Vice President and Controller has the authority to require accounting or financial records be submitted by all employees within a reasonable time frame, review departmental financial policies and procedures and require that they be revised, and review, test and revise departmental internal control activities.

E. **Chief Audit Executive, Internal Audit and Management Consulting.** The Chief Audit Executive, Internal Audit and Management Consulting will conduct periodic risk assessments, develop and implement audit plans to examine and evaluate internal controls and provide reports to management and the Board of Trustees on the results of such audits.

F. **Chief Compliance Officer.** The Chief Compliance Officer will coordinate periodic risk assessments, evaluate internal controls that support compliance, and provide reports to management and the Board of Trustees on the results of such activities.

G. **University Risk & Compliance Council** Members of the University Risk & Compliance Council guide the development of policies and procedures and other internal controls to support compliance, risk mitigation, and prevention and detection of misconduct. The Council manages the Enterprise Risk Management (ERM) process.

VII. Key Internal Control Activities

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 errors and prevent concealment of irregularities. This concept 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 pursuant to the University's policy on authority to sign contracts and other documents. Approval authority is usually conferred based on some special knowledge or competency and may be electronic or in writing. The timing of authorization and approval is typically before 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, a federal auditor, inquiring about it at a later date. Documentation minimizes the risk of penalties and fines due to unsubstantiated transactions. Refer to the State of Florida's *General Records Schedule GS5 for Public Universities and Colleges* and *General Records Schedule GS1- SL for State and Local Government Agencies* for specific document retention requirements.

D. **Supervisory Review.** Supervisors are required to review and compare actual revenue and expenditures to budgets regularly 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. Also, 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 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, the accuracy of the information, and privacy of personal information included in some records, and in many cases, a state or federal law applies.

G. **System and Application Security**. Access to automated UWF systems, applications, servers, databases, shared drives, and other automated or electronic resources should be based on the need to perform required duties as designated by job title, job grade, administrative level access requirements, or internal control procedure documentation. Access should be designed and periodically monitored 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 employees 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. Faculty receive performance evaluations will also be conducted pursuant to collective bargaining agreements, if applicable.

VIII. Authority and Related Documents:

A. UWF Policies (see: https://uwf.edu/offices/board-of-trustees/policies/) and all subsequent amendments:

1. UWF Policy P-04.05-05/18 *Authority to Sign Contracts and Other Documents*
2. UWF Policy P-10.02-07/18 *Detection Reporting and Investigating Fraud and Misconduct*
3. UWF Policy AC-11.02-05/13 *Conflicts of Interest Policy*
4. Board of Trustees Policy BOT-06-02-08/14 *Conflict of Interest Policy*
5. Board of Trustees Policy BOT-07.01-03.08 *Code of Conduct*
6. UWF Policy HR-15.03-08/20 *Employee Code of Conduct, Outside Activity and Conflict of Interest*
7. UWF Policy HR-22.00-2004/07 *Standards of Conduct*

B. Other Authoritative Documents

1. Florida Statutes, Section 1010.01, Uniform records and accounts https://www.flsenate.gov/Laws/Statutes/2019/1010.01
2. State of Florida General Records Schedule GS5 for Public Universities and Colleges https://dos.myflorida.com/media/693588/gs05.pdf

3. State of Florida General Records Schedule GS1-SL for State and Local Government Agencies https://dos.myflorida.com/media/703328/gs1-sl-2020.pdf
4. Institute of Internal Auditors Position Paper: *The Three Lines of Defense in Effective Risk Management and Control* https://na.theiia.org/standards-guidance/Public%20Documents/PP%20The%20Three%20Lines%20of%20Defense%20in%20Effective%20Risk%20Management%20and%20Control.pdf

IX. Related Information

A. The UWF Integrity Helpline https://uwf.edu/offices/compliance-and-ethics/uwf-integrity-helpline/uwf-integrity-helpline/
B. Committee of Sponsoring Organizations (COSO) https://www.coso.org/Pages/guidance.aspx
C. United States Government Accountability Office Standards for Internal Control in the Federal Government (the "Green Book") https://www.gao.gov/greenbook/overview
D. Office of Management and Budget (OMB) Circular A-123 - Management's Responsibility for Enterprise Risk Management and Internal Control https://obamawhitehouse.archives.gov/omb/circulars_a123_rev/
E. Institute of Internal Controls https://www.theiic.org/
F. The Institute of Internal Auditors (IIA) https://na.theiia.org/
G. Information Systems and Control Association (ISACA) https://www.isaca.org/
H. Association of College & University Auditors (ACUA) www.acua.org

X. LEGAL SUPPORT, JUSTIFICATION, AND REVIEW OF THIS POLICY

BOG Regulation 1.001(5), (6), (7); University of West Florida Board of Trustees *Resolution on Presidential Authority*, November 2017

This policy shall be reviewed by the Associate Vice President for Finance & Administration/Controller (AVP/Controller) every three years for its effectiveness. The AVP shall make recommendations to the Vice President for Finance and Administration for any modification or elimination.

APPROVED: DocuSigned by: Martha Saunders D54A387C376848D... 06/21/2021

Dr. Martha D. Saunders, President — Date

History: *New Policy June 2021.*