Internal Controls

The Internal Control Framework at Idaho State University (ISU) is based on the report of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Integrated Framework. COSO is a voluntary private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance.

I.   Definition of Internal Control

Internal control is a process affected by ISU administration, faculty, and staff that is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

All levels of University management (President, Provosts, Deans, central administrators, university business officers and department heads) are responsible for establishing internal control processes to help the University achieve its mission, to stay on course toward meeting financial goals, to minimize risk, and to more effectively deal with change.

II.   Components of Internal Control

Internal control consists of five interrelated components as follows:

Control Environment – The control environment sets the tone for an organization. It provides discipline and structure and strongly influences the control consciousness of the people within the organization. The control environment at ISU begins with the administration's philosophy and operating style as well as the priorities and direction provided by the Board of Higher Education. Key factors in the control environment include the integrity, ethical values, and competence of personnel. Competency of ISU personnel is ensured through a systematic hiring process, periodic evaluations that include performance and ethical standards, ongoing training, and professional development programs.

Risk Assessment – Risk assessment is the identification and analysis of relevant risks which may prevent the University or a department from meeting its operational, financial, and compliance objectives. ISU management should assess risk based on the types of activities performed, organizational structure, staffing levels, and attitudes within the department. Internal Control Guides and risk matrixes are available to assists departments in assessing and analyzing risks.

Control Activities – Control activities are the policies and procedures established to ensure that management's directives are implemented. ISU managers must be cognizant of University policies and procedures and supplement these procedures with department level guidance when necessary.

Information and Communication – Pertinent information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. Information systems produce reports containing operational, financial and compliance-related information that make it possible to run and control the University business. The reports deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. ISU managers need solid lines of communication between the department and central functions as well as between department management and staff. ISU communication channels are used to ensure communication effectively flows down, across, and up the organization.

Monitoring – Monitoring is a process that assesses the quality of the internal control process over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations and includes regular management and supervisory activities such as reviewing reconciliations and summary reports.   ISU managers are responsible for monitoring departmental activities and internal controls on a regular basis.

III.   Internal Control Objectives

Management must establish internal control objectives to effectively assess areas of potential risk. The following key internal control objectives apply:

- Accuracy of financial statements – sound information systems
- Validity of transactions, timeliness and completeness in processing transactions
- Compliance with applicable regulations and University policy
- Economy, efficiency, and effectiveness
    - Economy is getting inputs that can do the job at the best price
    - Efficiency is getting the best results from inputs, fine tuning processes so that they work well and are up to date
    - Effectiveness is getting the right results, achieving University objectives

IV.   Internal Control Activities

The following internal control activities are tools used in accomplishing these objectives:

Establishing a Control Conscious Environment – Setting the tone at the top within the University and each department is essential in developing sound internal controls. Ensuring ISU staff are properly trained, are knowledgeable of University policies and procedures, and receive feedback on a regular basis are key factors to a good control conscious environment.

Segregation of Duties – The separation of certain functions such as initiating, authorizing, recording and reconciling transactions is an important control activity. The amount of segregation possible within a function depends on the size and structure of the department. However, every effort should be made by ISU managers to ensure that one person does not have control over all parts of a transaction or process. Guidance for segregation within established University processes is provided through segregation of duties matrixes.

Authorization/Approval Processes – Approving and authorizing responsibilities within ISU departments should be limited to as few people as possible. System passwords are used as an integral part of the ISU approval process and must be kept confidential. Supportive documentation should be reviewed for each transaction to verify business purpose, budgetary constraints and compliance.

Physical Control of Assets – *I*SU business managers are responsible for the physical control of assets within the department. Safeguards should be implemented to ensure proper accountability of assets.

Monitoring – Monitoring activities by ISU managers would include such things as monthly financial statement review (ie, budget to actual reports), departmental feedback sessions, and internal control self-assessments. The Internal Audit office provides independent monitoring through internal audits.