



Financial Internal Controls

POLICY STATEMENT

Cornell University requires all operating units to develop their own unit-specific financial internal control plans using guidelines provided by the Office of the University Controller. Further, the university expects all members of the university community who are accountable for financial activity to be aware of and follow established internal controls, and recognize and address control gaps.

REASON FOR POLICY

A financial internal control framework allows the university to operate as a steward of university assets with effectiveness and efficiency, reliable financial reporting, and compliance with applicable policies, laws, and regulations. University bylaws require the establishment and maintenance of an adequate system of financial internal controls. This framework includes appropriate segregation of duties to safeguard assets against accidental loss or unauthorized use or disposition and to facilitate reliable financial records.

ENTITIES AFFECTED BY THIS POLICY

- Ithaca-based locations
- Cornell Tech campus
- Weill Cornell Medicine campuses

WHO SHOULD READ THIS POLICY

- Anyone who initiates, reviews, approves, processes, records, monitors, reconciles, or is otherwise accountable for financial activity or stewardship of resources on behalf of the university.

MOST CURRENT VERSION OF THIS POLICY

- <https://www.dfa.cornell.edu/policy/policies/financial-internal-controls>

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RELATED RESOURCES

University Policies and Information Applicable to All Units of the University

University Bylaws

- University Policy 1.1, Cost Sharing for Sponsored Agreements
- University Policy 1.7, Financial Conflict of Interest Related to Research
- University Policy 3.1, Accepting University Gifts
- University Policy 3.2, Travel Expenses
- University Policy 3.4, Use of Cornell Vehicles
- University Policy 3.6, Financial Irregularities, Reporting and Investigation
- University Policy 3.13, Graduate Tuition and Other Support
- University Policy 3.15, Unrelated Business Income Taxes (UBIT)
- University Policy 3.16, External Organization Accounts
- University Policy 3.17, Accepting Credit Cards to Conduct University Business
- University Policy 3.20, Cost Transfers on Sponsored Agreements
- University Policy 3.21, Advances (Including Petty Cash and Accounts Receivable)
- University Policy 3.22, Safekeeping of Financial Assets, Including Cash, Checks, and Securities
- University Policy 3.23, Establishing and maintaining Accounts at Banks and Financial Institutions
- University Policy 3.25, Procurement of Goods and Services
- University Policy 4.2, Transaction Authority and Payment Approval
- University Policy 4.6, Standards of Ethical Conduct
- University Policy 4.7, Retention of University Records
- University Policy 4.14, Conflicts of Interest and Commitment (Excluding Financial Conflict of Interest Related to Research)
- University Policy 4.17, Whistleblower Protection
- University Policy 5.10, Information Security
- University Policy 8.4, Management of Keys and Other Access Control Systems

University Policies and Information Applicable to Only Ithaca-Based Locations and Cornell Tech

- University Policy 3.8, Program Income from Sponsored Projects
- University Policy 3.9, Capital Assets
- University Policy 3.10, Recharge Entities, Ithaca Campus Units
- University Policy 3.11, Salary Confirmation
- University Policy 3.14, Business Expenses
- University Policy 3.18, Charging Directly to Sponsored Projects Costs that Are Normally Considered Indirect
- University Policy 3.19, Telephone Usage
- University Policy 4.12, Data Stewardship and Custodianship
- University Policy 5.4.2, Reporting Electronic Security Incidents
- University Policy 5.4.1, Security of Information Technology Resources

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RELATED RESOURCES, continued

External Documentation

[Committee of Sponsoring Organizations of the Treadway Commission \(COSO\) Website](#)

New York State Nonprofit Revitalization Act of 2013

New York Prudent Management of Institutional Funds Act of 2010 (NYPMIFA)

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ([2 CFR §200.303](#) or "Uniform Guidance")

University Forms and Systems

[Account Monitoring Guidelines](#)

[Accounting Reconciliation Guidelines](#)

[Ethics and Compliance Hotline](#)

Internal Controls Manual

Institutional Risk Management Program Assessment

Kuali Financial System (KFS)

SAP

Unit Management Representation Letter template

Unit Financial Internal Control Plan templates:

- Materiality
- Process workflow
- Risk assessment

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CONTACTS – ITHACA-BASED LOCATIONS AND CORNELL TECH

Direct any general questions about this policy to your college or unit administrative office. If you have questions about specific issues, contact the following offices.

Contacts, Ithaca-Based Locations and Cornell Tech

Subject	Contact	Telephone	Email/Web Address
Policy Clarification and Interpretation, Financial and Accounting	University Controller	(607) 254-8975	www.dfa.cornell.edu/controller
Reporting Improper Conduct or Violations of Policy	University Audit Office	(607) 255-9300	audit@cornell.edu

If you believe your questions have not been answered or you wish to remain anonymous, you may file a report through Cornell University's Ethics and Compliance Hotline call-in number at (866) 293-3077 or website at hotline.cornell.edu.

CONTACTS – WEILL CORNELL MEDICINE CAMPUSES

Direct any general questions about this policy to your college or unit administrative office. If you have questions about specific issues, contact the following offices.

Contacts, Weill Cornell Medicine Campuses

Subject	Contact	Telephone
Policy Clarification and Interpretation, Financial and Accounting	Weill Cornell Medicine Controller	(646) 962-3635
Reporting Improper Conduct or Violations of Policy	Weill Cornell Medicine Audit Office	(646) 962-6940

If you believe your questions have not been answered or you wish to remain anonymous, you may file a report through Cornell University's Ethics and Compliance Hotline call-in number at (866) 293-3077 or website at hotline.cornell.edu.

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DEFINITIONS

These definitions apply to terms as they are used in this policy.

Account Monitoring	The process of periodically assessing an account balance for reasonableness, and investigating underlying account activity for any unexpected results.
Business Process	An interrelated series of business transactions (e.g., PCard, disbursement voucher, etc.) that have a direct impact on an operating unit's financial results.
Business Transaction	An individual transaction (e.g., individual purchases utilizing a PCard or disbursement voucher) that is part of an overall series of transactions that constitute an overall business process.
COSO	<i>The Committee of Sponsoring Organizations of the Treadway Commission</i> : a joint initiative of five private sector organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control, and fraud deterrence.
Control Environment	The set of standards, processes, and structures that provides the basis for ensuring internal control across the organization. The Board of Trustees and institutional and operating unit heads or designees establish the tone at the top regarding the importance of the financial internal control framework and related internal controls, including expected standards of conduct.
Control Activities	The actions established through policies, procedures, and information systems that help ensure that management's directives, which manage risks to the achievement of objectives, are carried out.
Control Deficiency	A situation where a control is not present or not functioning as intended.
Inherent Risk	The degree to which a business process is susceptible to financial misstatement, without consideration given to existing internal control.
Internal Control	A process designed to provide reasonable assurance that objectives related to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with laws, regulations and policies will be achieved.
Institutional Risk Management	A process through which the university prioritizes its identified risks based on their likelihood and potential impact on the university's progress toward achieving its strategic objectives, priorities, and goals.
Materiality Level	For operating unit internal control plans, the amount by which a unit's financial information could be misstated, by error or fraud, and still not affect the decisions of reasonable financial information users. Materiality entails both quantitative and qualitative considerations and is informed by management's risk appetite and risk tolerance. Examples of qualitative considerations include compliance with federal and state regulations, as well as perceived reputational risk.
Monitoring Activities	Ongoing evaluations used to ascertain whether each of the five components of financial internal controls (Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring) are present and functioning as intended.

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DEFINITIONS, continued

Operating Unit	An organizational unit, as defined in Appendix G, in University Policy 4.2, Transaction Authority and Payment Approval.
Reconciliation	The process of comparing and resolving differences between two sources or systems, such as comparing the general ledger with a subsidiary ledger, statement, or other source document.
Risk Appetite	The amount of risk that an organization (e.g., the overall university or individual operating unit) is willing to take in order to achieve a desired objective.
Risk Assessment	A dynamic and iterative process for identifying, assessing, and prioritizing internal controls and related risks in terms of the achievement of objectives. Risks are considered by management relative to established risk appetite and tolerances.
Risk Tolerance	The tolerable range of acceptable outcomes relative to management's desired objective (i.e., risk appetite).
Segregation of Duties	The concept of not having one person unilaterally involved in more than one of the key functions of a business process, specifically recording, authorization, custody, and reconciliation.
Significant Transaction Cycle	An interlocking set of business processes and underlying transactions (e.g., purchasing, revenue, payroll, etc.) deemed significant enough with respect to dollar amount and volume to have a material impact on an operating unit's financial results. Most financial transactions can be aggregated into a relatively small number of transaction cycles, such as those related to tuition and other revenues, payments to suppliers, payments to employees, payments to lenders, etc.
Tolerable Misstatement	The amount by which an account balance can differ from its correct amount without impacting the fair presentation of an operating unit's overall financial results.

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RESPONSIBILITIES

The major responsibilities each party has in connection with this policy are as follows, listed alphabetically:

Audit, Risk, and Compliance Committee (ARCC) of the Board of Trustees

◆ **Note:** Cornell University's Board of Trustees has delegated responsibility for oversight of the University's system of internal controls to the ARCC.

In conjunction with the university president, provost, and executive vice president and CFO, establish, communicate, and reinforce institutional expectations for internal control to ensure that university management is aware of expectations (i.e., set the "tone at the top").
Establish authorities and lines of reporting, including upward communication channels.

Evaluate university management's effectiveness in establishing and monitoring the system of financial internal controls, including the overall control environment.

Receive periodic assessments of internal controls from external and internal auditors.

Deans, Vice Presidents, Vice Provosts or their Designees (Unit Head or Designee)

Establish, communicate, and reinforce institutional expectations for internal controls to ensure that unit management is aware of expectations (i.e., set the "tone at the top").

Hold individuals accountable for their internal control and policy compliance responsibilities.

Document and implement unit-specific customized internal control plans using Office of the University Controller-provided templates and guidelines to establish an acceptable level of financial internal controls.

Develop, document and perform ongoing evaluations and oversight to ascertain whether the components of the internal control framework are present and functioning effectively.

Provide annual unit management representations to the Office of the University Controller attesting to the presence and functioning of an adequate and effective system of internal controls.

Implement corrective actions for internal control deficiencies identified by university management or internal or external auditors, and set a reasonable time limit for these actions to be completed.

Evaluate operating unit policies and procedures at least every three years or when changes to business processes or financial systems occur to ensure that they support the financial internal control framework principles and guidelines.

Executive Vice President and CFO or Executive Vice Provost

In conjunction with the board of trustees, university president, and provost, establish, communicate, and reinforce institutional expectations for internal control to ensure that unit management is aware of expectations (i.e., set the "tone at the top").

Direct and oversee business, financial and informational services in support of university affairs. This includes the establishment of reporting lines, transaction authority, and upward communication channels within these areas.

Institutional Risk Council

Oversee the university's Institutional Risk Management Program and related activities, including maintaining and monitoring the institutional risk inventory and periodic risk assessment process.

Annually present and discuss the Institutional Risk Management Program key activities to the Internal Control Committee and the ARCC.

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RESPONSIBILITIES, continued

	<p>Ensure that key information related to the university's Institutional Risk Management Program is disseminated to key university stakeholders, including operating unit heads and designees, as necessary to implement the provisions of this policy.</p>
Internal Control Committee	<p>In conjunction with the university controller, monitor reports and recommend updates to the university's system of financial internal controls, as appropriate.</p> <p>In conjunction with the university controller, assist operating units with implementing this policy, including reviewing and approving training materials, unit management representation letter template, Internal Control Plan template and guidelines, etc.</p>
Internal Control Officer (University Controller)	<p>Ensure financial internal controls, sound business practices, and compliance with Cornell financial policies and applicable external laws and regulations.</p> <p>Develop and maintain a financial internal control framework.</p> <p>Chair and lead the activities of the Internal Control Committee activities, including committee membership.</p> <p>Present an annual report to the ARCC on financial internal controls.</p> <p>Prepare or approve all external university financial reports.</p> <p>As required, report on internal controls to internal and external parties.</p>
Office of the University Controller/Internal Control Officer	<p>Administer and update this policy and the Internal Controls Manual, as necessary.</p> <p>Work with units to maintain adequate records of assets, liabilities, income, expenses, and other financial transactions of the university.</p> <p>Develop and maintain accounting and financial internal controls and related policies and procedures, including processes for reviewing the correctness and propriety of financial transactions.</p> <p>Receive and evaluate annual management representations from operating units.</p> <p>Implement necessary corrective actions, in conjunction with units where necessary, including addressing the findings and recommendations of internal and external audits.</p> <p>Work closely with unit management and the University Audit Office to address identified control deficiencies.</p> <p>Work with units to develop and document unit-specific, customized control plans, including developing unit materiality levels and completing unit risk assessments.</p> <p>Train employees as necessary or as requested by the units.</p> <p>Act as a primary contact for information and help with accounting and financial internal controls.</p> <p>Provide support to assist in administering and achieving compliance with this policy.</p>
President	<p>In conjunction with the Board of Trustees, university provost, and executive vice president and chief financial officer, establish, communicate, and reinforce institutional expectations for internal control and make university management aware of expectations (i.e., set the "tone at the top").</p> <p>Present to the board of trustees for its approval, from time to time, a schedule of those officers of the university who are to be authorized to execute contracts, deeds, and other instruments in writing on behalf of the university, together with an appropriate statement of limitations, if any, on such contracting authority and of the power of delegation for each such officer.</p>

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Provost	In conjunction with the board of trustees, university president, and executive vice president and chief financial officer, establish, communicate, and reinforce institutional expectations for internal control to ensure that university management is aware of expectations (i.e., set the “tone at the top”).
University Audit Office	Audit, assess, and provide assurance of the adequacy of financial, operational, certain compliance and IT internal controls. Conduct internal audits and risk assessments of the university’s financial accounts and records in a manner consistent with ARCC-approved, risk-based internal audit work plans. Report internal control deficiencies to the ARCC and responsible senior management, as appropriate. Advise units regarding the development and documentation of their unit-specific internal control plans. Administer the Cornell Ethics and Compliance Hotline process.

PRINCIPLES

Overview

The university is committed to establishing an internal control environment that fosters effective and efficient financial operations and reliable financial reporting, while complying with applicable laws and regulations. The Board of Trustees, the State University of New York, and federal Uniform Guidance all require that the university adopt an internal control framework and maintain an adequate system of internal controls. Moreover, internal controls are expected by the public and play a key role in good management and governance practices. Accordingly, the university has implemented the Internal Control—Integrated Framework created by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. COSO is a joint initiative of five private-sector organizations dedicated to providing thought leadership to executive management and governance entities on critical aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting.

The university's internal control framework is dependent upon a number of individual operating units which are characterized by separate and distinct sets of operational objectives and financial operations. These decentralized operations make it imperative that each operating unit develops, documents, and maintains an effective system of internal controls. Toward that end, each operating unit is required to develop, implement, and maintain its own unit-specific internal control plan and take necessary measures to effectively monitor the effectiveness of the plan and respond accordingly to any control risks that are identified.

COSO Internal Control Framework

The principles-based approach of the COSO Internal Control—Integrated Framework (COSO Framework) allows flexibility and judgment in designing, implementing, and conducting internal control. According to the COSO Framework, the internal control process is designed to provide reasonable assurance of achieving objectives in operations, reporting, and compliance. Within it, every single person in an organization is responsible for applicable internal controls. The COSO Framework sets forth the following five components of effective internal controls:

1. **Control Environment:** Sets the “tone at the top” and is the foundation for all other internal control components.
2. **Risk Assessment:** Processes to identify and analyze relevant risks to the achievement of objectives.
3. **Control Activities:** Policies establishing what should be done and procedures affecting the policies.
4. **Information and Communication:** Systems and processes that support the capture and exchange of relevant, quality information.

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PRINCIPLES, continued

5. Monitoring: Processes to assess the quality and effectiveness of internal control performance over time.

An effective system of internal control requires that each of these five components of internal control and their relevant principles are present and functioning, and the five components are *operating together* in an *integrated manner*. Each component of the COSO framework and its underlying principles are described in more detail below.

Control Environment

The tone at the top is the most important component of an internal control program, because the right tone in the control environment allows the organization to demonstrate a commitment to integrity and ethical values. Leaders can delegate authority but not responsibility. Furthermore, an effective control environment requires adherence to the following principles:

- The Board of Trustees demonstrates independence from university's management and oversees internal control development and performance.
- University senior leadership establishes, with board oversight, the structures, reporting lines, and appropriate authority and responsibility in the pursuit of objectives.
- The university demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Unit heads or designees are accountable for the internal controls within their units.

Risk Assessment

As part of ongoing institutional risk management (IRM) program activities, the Institutional Risk Council (IRC) will maintain an institutional risk assessment, which ranks and prioritizes the university's institutional risks and applicable mitigation plans. This IRM risk assessment is presented and discussed annually with the IRC, the Internal Control Committee, and the Audit, Risk and Compliance Committee of the Board of Trustees. The university must establish controls commensurate with the assessed risks. The following principles are employed during this institutional-level assessment:

- Management specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
- The university's IRM program identifies risks to the achievement of institutional objectives across the entity, and analyzes risks as a basis for determining how the risks should be managed.

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PRINCIPLES, continued

- The IRC considers the potential for fraud, misappropriation of assets, and conflict of interest in assessing risks to the achievement of objectives.
- The IRC also identifies and assesses changes (personnel, procedural, financial systems, etc.) that could significantly impact the system of internal control.

Unit-Level Risk Assessments

This policy requires that similar assessments of financial internal control risks be performed at the operating unit level and, ultimately, that each operating unit develop a unit-specific internal control plan (ICP). Operating unit heads or designees must employ the following principles in their risk assessment processes:

Specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.

- Utilize the unit-level materiality template provided by the Office of the University Controller to calculate the unit's materiality and tolerable misstatement thresholds.
- Assess whether the unit's risk tolerance is consistent across transaction cycles and business processes or whether specific activities, such as sponsored research, financial aid, or restricted gifts, require a reduced tolerance.
- Identify and document all key business processes currently taking place within the unit.
- Utilize the risk assessment tools and templates provided by the Office of the University Controller to aggregate the individual business processes into significant transaction cycles (tuition and other revenues, payments to suppliers, payments to employees, etc.).
- Identify and document the potential risks inherent within each significant business process, including the risks of fraud, misappropriation of assets, and conflict of interest.
- As needed, analyze the risks in relation to the unit-level materiality threshold as a basis for determining how the risks should be managed.
- Evaluate operating unit policies and procedures at least every three years or when changes to business processes, personnel or financial systems occur to identify and assesses changes that could significantly impact the unit's ICP.

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PRINCIPLES, continued

Control Activities

Internal control activities are the day-to-day management practices within operating processes and information systems to help ensure that identified risks are sufficiently addressed, thereby increasing the likelihood of achieving organizational objectives. Under the COSO framework the following principles apply to control activities:

- Unit management selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels, based upon materiality thresholds and risk tolerance.
- The university deploys control activities through policies that establish what is expected and procedures that put policies into action.
- Unit management selects and develops information technology general control activities to support the achievement of objectives.

Unit-Level Internal Control Plans

Under this policy, unit heads or designees must ensure that everyone who touches a financial transaction has read and understood the policies and procedures applicable to that transaction. Unit heads or designees must develop and implement a unit-level ICP, and attest to the existence of an effective system of internal controls at the unit level through an annual management representation letter. Unit heads or designees are responsible for the following regarding control activities:

- Develop, document, and implement unit-specific, customized ICP based on the unit-level risk assessment.
- Attend training and ensure staff members complete required training.
- Provide written annual management representation letters to the Office of the University Controller, attesting to the presence and functioning of an effective system of controls, and disclosing any identified control deficiencies.

Information and Communication

The generation and communication of reliable information is necessary for the university to effectively carry out its internal control responsibilities toward the achievement of its objectives. Effective communication incorporates the following principles:

- Management obtains or generates and uses relevant, quality information to support the functioning of other components of internal control.
- Management internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of other components of internal control.

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- The Office of the University Controller communicates with senior leadership, the internal control committee, and external parties regarding matters pertaining to the effectiveness and efficiency of internal controls.

Monitoring Activities

These activities are conducted by unit heads or designees on a continual basis, by certain central functions (e.g., Sponsored Financial Services) as part of functional responsibilities, and by the University Audit Office through the internal audit process, throughout the fiscal year. All levels of management must follow these principles of monitoring financial activities:

- Select, develop, and perform ongoing and/or separate evaluations and oversight to ascertain whether the components of internal control are present and functioning in a consistent and effective manner.
- Evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action.

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PROCEDURES

To comply with this policy, you must follow the procedures prescribed in the official Internal Controls Manual maintained by Office of the University Controller, available online at <https://www.dfa.cornell.edu/controller/internalcontrols>. The manual provides general information on the designing the appropriate level of internal control procedures and provides a framework for identifying significant transaction cycles within an operating unit and high-risk business processes within the transaction cycles, and for designing an appropriate unit-specific Internal Control Plan for each operating unit in order to mitigate such risks. To assist units, templates have been designed and are available through the Division of Financial Affairs (see Contacts).

Internal Controls Manual Sections

Designing Internal Controls – General Overview	This section describes how internal control procedures can be categorized between preventative and detective. It also differentiates between manual vs. automated controls and transaction-level vs. summary-level control procedures, and correlates the frequency and location (centralized vs. units) of control procedures to the assessed levels of risk. Lastly, this section outlines the two phases of remediating identified control deficiencies.
Developing Unit-Level Internal Control Plans	The financial officer of each unit is required to work with the Office of the University Controller to develop and implement a unit-specific internal control plan approved by the unit head or designee.
Element One: Separation of Duties	All units should separate incompatible functional responsibilities to ensure that no one person is able to initiate, authorize, record, and reconcile a transaction. When this is not practical, alternative mitigating controls should be implemented.
Element Two: Proper Authorization	All transactions and activities should be carried out and approved by employees acting within their ranges of knowledge and proper spans of control. Proper authorization practices serve as a proactive approach for preventing invalid transactions from occurring.
Element Three: Documentation	Adequate documentation must be maintained to support all transactions and internal controls. For these purposes, adequate documentation is anything that provides sufficient and appropriate evidence of (a) a transaction, (b) who has performed each action pertaining to a transaction, and (c) the authority to perform such activities.
Element Four: Security	Assets and records should be kept secure at all times to prevent unauthorized access, loss or damage. The security of assets and records is essential for ongoing operations, accuracy of information, privacy of personal information included in some records, and in many cases is required under various state or federal laws.
Element Five: Reconciliation	The process of comparing and resolving differences between two sources or systems, such as comparing the general ledger with a subsidiary ledger (subledger), statement, or other source system/document. Reconciliations ensure that financial information is accurate, complete, and valid, and a proper reconciliation process helps ensure that unauthorized changes to transactions have not occurred during processing.
Element Six: Account Monitoring	The process of periodically assessing an account balance for reasonableness and investigating underlying account activity for any unexpected results. This process is not as extensive as the account reconciliation process, and should be utilized for all accounts, particularly those not reconciled on a regular basis.

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PROCEDURES, continued

Appendix A: Materiality	This template provides a method for calculating overall unit-specific materiality levels.
Appendix B: Unit-Specific Risk Assessment	This Excel template helps identify all significant transaction cycles and business processes within a unit as well as the level of internal control risk present within each business process. Additionally, each unit must describe the control procedures currently in place within each process as well as any necessary corrective (mitigating) procedures.
Appendix C: Unit-Specific Workflow Diagram	Each unit is required to provide a workflow diagram that outlines the control procedures documented within the unit-specific risk assessment for each significant transaction cycle and business process within the transaction cycles.
Appendix D: Operating Unit Internal Control Certification	Each unit is required to provide an annual certification to the Office of the University Controller in support of the university's audited financial statement audit. The certification includes the following areas: completeness and accuracy of financial reporting, effective internal controls, changes in activities, and commitments, contingencies and disclosures.

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