

Policy Title:	Internal Controls
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Governing Body:	Southern Oregon University	Policy Number:	FAD.055
Policy Contact:	Vice President for Finance & Administration	Date Revised:	July 2016
Custodial Office:	Finance & Administration	Date Approved:	July 2016
Approved By:	President	Next Review:	July 2019
Related Policy:			

**Revision History**

Revision Number:	Change:	Date:
-	Initial version	July 2015
1	Revision	July 2016

**A. Purpose**

Southern Oregon University (SOU) shall establish and maintain an effective system of internal controls. Internal controls are designed to assure that the university meets its mission, promotes performance leading to effective accomplishment of objectives and goals, safeguards assets, provides accurate and reliable financial and other key data, promotes operational efficiency and economy, and encourages adherence to applicable laws, regulations and prescribed management policies and practices. The control model is the Integrated Framework of Internal Control as promulgated by the congressionally established Committee of Sponsoring Organizations (COSO).

This policy is intended to ensure that the university has a system of accountability for and oversight of its operations and to assist the university in reaching its goals and meeting its objectives.

**B. Definitions**

**1. Internal Control**

A process, affected by the Board, management, and other personnel, 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

The components of internal control are:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

## **2. Control Environment**

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values, and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the Board of Trustees.

## **3. Risk Assessment**

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory, and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

## **4. Control Activities**

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

## **5. Information and Communication**

Pertinent information must be identified, captured, and communicated in a form and timeframe that enable 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 business. They 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. Effective communication also must occur in a broader sense, flowing down, across, and up the organization. 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. There also needs to be effective communication with external parties, such as customers, suppliers, regulators, and shareholders.

## **6. Monitoring**

Internal control systems need to be monitored - a process that assesses the quality of the system's performance 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. It includes regular management and supervisory activities and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the Board.

## C. Policy Statement

### **1. Responsibilities**

The SOU president, through directed leadership, shared values, and a culture that emphasizes accountability, is responsible for ensuring that an effective internal control system is established and maintained. Notwithstanding any delegation made by the president to administer this policy, the president shall be responsible to the Board for the faithful execution of this policy, consistent with the other policies of the Board and applicable law.

### **2. Policy Provisions**

**Internal Control System Elements** - The internal control system shall be developed using the COSO model that includes the following elements: Control Environment; Risk Assessment; Control Activities; Information and Communication; Monitoring.

**President's Office Participation in Recruitments for Certain University Administrators Responsible for Internal Controls and Financial Management** - To enable the President's Office to establish and maintain an effective internal control system over its university-wide operations, as well as carry out its management and oversight responsibilities, President's Office personnel will participate in the recruitment process for the following key university management positions: Vice President for Finance and Administration; Associate/Assistant Vice President for Finance and Administration; Director of Budgets/Chief Budget Officer; and Director of Business Affairs/Controller. These positions have a responsibility both to the university's President and to the Board of Trustees with respect to the establishment and maintenance of the internal control system and to the financial management of the university. The participation by the President's Office in these recruitments will focus primarily on whether the candidates for these offices possess the appropriate education/credentials, experience, knowledge, and skills to be successful in the position.

### **3. Guiding Principles**

SOU's internal control and risk assessment practices shall help ensure that:

- University activities and operations function effectively and efficiently;
- University activities and operations comply with laws, regulations, and university policies and standards;
- University processes result in accurate and reliable financial information and reports;
- University resources are adequately protected;
- All material risks facing the university, including, but not limited to, strategic, operational, financial, compliance, and reputational, are routinely identified and assessed, and appropriately managed;
- Control activities and other mechanisms are proactively designed to address and manage significant risks;
- Information critical to identifying risks and meeting the university's mission and strategic objectives is communicated through established channels throughout the university; and
- Controls are monitored and identified problems are addressed in a timely manner.

This policy may be revised at any time without notice. All revisions supersede prior policy and are effective immediately upon approval.

#### D. Policy Consultation

This policy was transferred to SOU by operation of law on July 1, 2015 from the State Board of Higher Education Board Policy Manual. Revisions to the text of the policy were posted for campus comment on June 21, 2016.

#### E. Other Information

This policy codifies and revises as Southern Oregon University Policy the rule previously adopted by the State Board of Higher Education concerning this topic and transferred to SOU by operation of law on July 1, 2015.

The Policy Contact, defined above, will write and maintain the procedures related to this policy and these procedures will be made available within the Custodial Office.