



Internal Controls

No. 3010

Policy Effective Date:
12/15/1989

Last Revision Date:
2/26/2021

Policy Owner:
Simon Allen

Policy Author:
(Contact Person)
Nancy Meacham

Affected Parties:
Faculty
Staff

1.0 Purpose
2.0 Policy
3.0 Procedures
4.0 Definitions
5.0 References
6.0 Approval and Revisions

1.0 Purpose

Virginia Tech is entrusted with resources to execute its tri-part mission of teaching, research, and engagement/service. As the recipient of these funds, the university has a fiduciary responsibility to establish and implement effective internal controls to ensure the integrity, accuracy, and reliability of financial data and other management information.

Internal controls are the system of checks and balances that prevent or detect errors and irregularities; ensure compliance with university policies and procedures and state and federal laws and regulations; and safeguard university assets. Errors and irregularities include, but are not limited to, data entry errors; duplicate payments; and inappropriate, unallowable, unreasonable, or fraudulent transactions. Internal controls must be implemented on a university wide basis as well as at the organizational unit level.

Please refer to [Policy 3100, Fiscal Responsibility Policy](#), for information regarding types of internal controls including preventive controls and detective controls.

2.0 Policy

It is the university's policy to maintain a robust system of internal controls in order to safeguard assets, identify and correct errors and irregularities in the financial records on a timely basis, and to enhance compliance with university policies and procedures and applicable laws and regulations. The establishment, maintenance, and evaluation of an organization's system of internal controls is the responsibility of management and creates the foundation for sound business practices within an ethical environment. It is also university policy to assess the effectiveness of the system of internal controls through periodic reviews by management and the services of external and internal auditors.

This policy applies to all university faculty, staff and wage employees, hereafter referred to as "employees." All university employees play a key role in ensuring that the high standards of business and ethical practices and the good stewardship of university resources are adopted in the performance of their duties at Virginia Tech. The establishment of strong internal controls echoes the principles of professional and personal integrity found in the university's [Statement of Business Conduct Standards](#) which requires all employees to be fair, ethical, and honest in all internal and external business dealings and to comply with university policies and procedures and applicable laws and regulations.

Vice Presidents, Deans, Department Heads, Department Chairs, Directors or similarly titled administrative managers, hereafter referred to as "managers," must set an ethical example as outlined in the Statement of Business Conduct Standards. Managers are responsible for establishing effective internal controls by maintaining an ethical climate in the workplace that promotes compliance with university policies and procedures and good stewardship of university resources; prevents or mitigates conflicts of interest; and deters fraudulent activities for their organization.



Agency Risk Management and Internal Control Standards (ARMICS) established internal control standards for all state agencies in order to provide reasonable assurance of the integrity of all fiscal processes. In accordance with the ARMICS, the State Comptroller establishes guidelines for all state agencies, including the university, regarding management's evaluation and certification of their systems of internal controls. In compliance with these guidelines, the university has assigned the Assistant Vice President for Finance and University Controller (Controller) the primary responsibility for conducting internal control evaluations.

The Office of Audit, Risk, and Compliance serves an important role in providing independent and objective assurance regarding the effectiveness of the university's internal control environment including risk management, control, and governance processes.

3.0 Procedures

Below are distinct roles and responsibilities required to maintain an effective system of internal control.

3.1 Responsibility and Accountability

3.1.1 Faculty, Staff, and Other Employees' Responsibility and Accountability

All university employees are responsible for:

- Acknowledging and abiding by the [Statement of Business Conduct Standards](#), a university guide of key principles for ethical business and administrative conduct;
- Being good stewards of public and private funds by making wise, careful, and respectful use of university resources. This includes learning and following [university policies](#) and applicable state and federal laws and regulations, and ensuring that expenditures are necessary, reasonable, and fiscally responsible;
- Understanding and adhering to the operating procedures and internal controls established by their organizational unit and central administrative offices; following sound financial practices as established in the university financial policies and procedures to prevent waste and abuse, promote efficient operations, and prevent and detect errors, irregularities, and/or compliance violations;
- Utilizing university resources including property, equipment, finances, materials, electronic and other systems, and other resources for legitimate university purposes, and not for personal gain;
- Securing and protecting public, private, and confidential information, which includes maintaining strong passwords, never sharing passwords with colleagues and others, and ensuring data protection controls are appropriate for the level of risk associated with the data in accordance with the [Virginia Tech Risk Classifications](#); and
- Reporting suspected irregularities or fraudulent activities or transactions to either Office of Audit, Risk, and Compliance, the university Police Department, or the State Employee Hotline in accordance with [Policy 1040, Reporting and Investigating Suspected Fraudulent Activities](#).



3.1.2 Management Responsibility and Accountability

In addition to the responsibilities for all employees outlined above, managers are specifically responsible for the following:

- Establishing the “tone at the top” which promotes a strong ethical business environment. The “tone at the top” can be demonstrated by:
 - Setting the appropriate attitude of intolerance for fraudulent acts and providing ethical leadership.
 - Providing structure and accountability for fiscal processes and transactions. A best practice to ensure accountability is to include these responsibilities in employees’ performance plans and job descriptions.
 - Being cognizant of the risks and exposures inherent in their area of responsibility, being familiar with the types of improprieties that might occur within their area of responsibility, and being alert for any indication of irregularity.
 - Establishing an environment which supports reporting suspected irregularities or fraudulent activities or transactions in accordance with [Policy 1040, Reporting and Investigating Suspected Fraudulent Activities](#) and preventing retaliation against colleagues for reporting a suspected compliance violation.
- Establishing departmental business processes with appropriate levels of authority, responsibility, and segregation of duties, to ensure transactions are properly reviewed and authorized and that no one person has the ability to control financial transaction(s) from start to finish. The ability to have total control over transactions greatly increases the risk of fraud, errors, and irregularities to occur and go undetected;
- Hiring competent administrative and fiscal personnel and ensuring they receive adequate training from central administrative offices to develop expertise in university fiscal and administrative policies and procedures, and applicable state and federal laws and regulations;
- Ensuring administrative and fiscal personnel are assigned responsibility and accountability for consistent compliance with university policies and procedures, such as, but not limited to the following:
 - Month-end reviews and reconciliations are performed for all departmental funds (including all funding sources such as Education & General, Recovered Facilities and Administrative Cost (or overhead funds, auxiliaries, sponsored projects, etc.) in accordance with [Policy 3100, Fiscal Responsibility](#)
 - I-9s are completed timely for all new employees (forms accurately and fully completed by employee on the first day of work and hiring authority by the third day of work; minimum federal standard is 100 percent compliance) [Controller’s Office Procedure 20320c: I-9 Procedures](#)
 - Invoices are processed in accordance with the requirements of the Prompt Pay Act (minimum state standard is 95 percent paid within 30 days), [Policy 3260, Prompt Payment](#)
 - Effort certification or Personnel Activity Reports (PARs) are completed timely and accurately and certified by appropriate personnel (100 percent certified within 40 days of receipt) [Policy 3105, Effort Certification](#)



Virginia Polytechnic Institute and State University

- Departmental personnel assist the Controller's Office to complete equipment inventories timely and accurately (95 percent of all equipment located or accounted for) [Policy 3950, Fixed Asset Accounting](#), with all disposals processed through Surplus Property, [Policy 3955, Management of Surplus Property](#)
- Employee Leave Reports are completed timely and accurately (95 percent of required leave reports submitted and approved electronically by the 16th of each month) [Human Resources Leave Representative Manual](#)
- Monthly Purchase Card review and reconciliations ([University Issued Purchasing Credit Cards](#))
- Ensuring that employees responsible for approving financial transactions have adequate knowledge of university policies and procedures and application of laws and regulations to effectively determine if such transactions are allowable and compliant with these requirements. Additionally, those employees charged with approving or reviewing financial transactions should also determine if such transactions are making wise, careful, and respectful use of university resources, and ensure that expenditures are necessary, reasonable, and have appropriate supporting documentation;
- Ensuring appropriate access to university information and systems. This includes limiting employee system access for both inquiry and approval capabilities to the levels needed for employees to complete their current job responsibilities. System access for each employee should be reviewed at least annually to ensure access is still needed or that access has been properly removed for employees who are no longer employed at the university or within the department. Please refer to [Policy 7100, Administrative Data Management and Access Policy](#), which establishes uniform data management practices and responsibilities for assuring the integrity of university data;
- Ensuring proper stewardship and accountability of assets by implementing appropriate safeguards to the physical control of assets and space within the department;
- Ensuring that reports of violations within their area of responsibility are properly resolved, including disclosure to sponsors or other state or federal authorities as appropriate;
- Conducting an annual self-assessment of the financial and business processes for their area(s) and certifying the results of self-assessment on the Financial and Business Compliance Survey distributed by the Controller's Office; and
 - This self-assessment includes comparing the actual business practices within their organization with the requirements contained in university policies and procedures to help identify internal control strengths and weaknesses for all departmental business processes.
- Working with the Controller's Office, the ARMICS Coordinator/Internal Controls Manager, or other central administrative areas to implement corrective actions to address internal control deficiencies identified in the Financial and Business Compliance Survey certification, Office of Audit, Risk, and Compliance reports, or Auditor of Public Accounts audit reports.

3.1.3 Controller's Office Responsibility and Accountability

The Controller and the ARMICS Coordinator/Internal Controls Manager are assigned the following responsibilities:



Virginia Polytechnic Institute and State University

- Establishing the internal control structure for the university's financial systems and processes through the creation and ongoing maintenance of university fiscal policies and procedures which ensures:
 - appropriate preventive controls are embedded in financial processes including segregation of duties, approval workflows, and system access controls, etc.;
 - appropriate detective controls are established delineating departmental responsibilities to conduct reviews and reconciliations of financial transactions on a timely basis in accordance with [Policy 3100, Fiscal Responsibility](#)
- Developing a cost-effective method for evaluation of the systems of internal controls, which minimizes the impact on departments and achieves compliance with the guidelines;
- Coordinating management's annual self-assessment of internal controls through the distribution of the Financial and Business Compliance Survey to department heads and their fiscal staff for their certification and subsequently distributing the summarized results to senior management for their certification of the results of the self-assessment for all of their respective departments;
- Coordinating and assisting the Financial Management department with corrective actions and plans to address deficiencies in internal controls identified by the ARMICS team, the Office of Audit, Risk, and Compliance, or the Auditor of Public Accounts; and
- Developing a comprehensive methodology for compliance with the ARMICS standards. This includes:
 - Understanding and adhering to the ARMICS guidelines which requires annual assessment and certification of internal controls at university-wide and transactional levels;
 - Creating an annual report on the internal control self-assessment and the internal control deficiencies identified by either the ARMICS team or the Office of Audit, Risk, and Compliance to the Vice President for Finance and Chief Financial Officer;
 - Certifying annually to the Commonwealth of Virginia's Comptroller and Auditor of Public Accounts the university's assessment of internal controls in accordance with ARMICS standards.

3.1.4 Financial Management Responsibility and Accountability

Financial Management is responsible for the following:

- Working with the Division of Human Resources to ensure new employees receive the Statement of Business Conduct Standards during the orientation and onboarding process;
- Collecting and tracking the completion of the Acknowledgement of Employee Receipt and Review of Statement of Business Conduct Standards for all faculty and staff; and
- Assisting university departments with corrective action planning and implementation for internal control deficiencies identified by the Office of Audit, Risk, and Compliance or external auditors.

4.0 Definitions

ARMICS guidelines for implementing internal control programs are available in the [Commonwealth Accounting Policies and Procedures Manual, Section No. 10305, Internal Control Guidance](#).



DETECTIVE CONTROLS are internal controls designed to search for and detect errors and irregularities which may have occurred.

INTERNAL CONTROLS are the system of checks and balances implemented on a university-wide basis and organization unit level that either prevent or detect errors and irregularities; ensure compliance with university policies and procedures and state and federal laws and regulations; and safeguard university assets.

MANAGERS include but are not limited to vice presidents, deans, department heads, department chairs, directors, or similarly titled administrative managers of every university organizational unit.

PREVENTIVE CONTROLS are internal controls designed to discourage or pre-empt errors or irregularities from occurring.

5.0 References

Policy 3100, Fiscal Responsibility

<http://www.policies.vt.edu/3100.pdf>

Statement of Business Conduct Standards

<https://financialmanagement.vpfin.vt.edu/business-practices/business-conduct-standards.html>

University Policies

<https://policies.vt.edu/>

Virginia Tech Risk Classifications

https://it.vt.edu/content/dam/it_vt_edu/policies/Virginia-Tech-Risk-Classifications.pdf

Policy 1040, Reporting and Investigating Suspected Fraudulent Activities

<http://www.policies.vt.edu/1040.pdf>

Controller's Office Procedure 20320c: I-9 Procedures

https://www.controller.vt.edu/content/dam/controller_vt_edu/procedures/payroll/20320c.pdf

Policy 3260, Prompt Payment

<https://policies.vt.edu/3260.pdf>

Policy 3105, Effort Certification

<https://policies.vt.edu/3105.pdf>

Policy 3950, Fixed Asset Accounting

<https://policies.vt.edu/3950.pdf>

Policy 3955, Management of Surplus Property

<https://policies.vt.edu/3955.pdf>

Human Resources Leave Representative Manual

<https://hrapps.hr.vt.edu/resourceguide/docs/LeaveRep.pdf>



University Issued Purchasing Cards (P-Cards)

<https://www.procurement.vt.edu/departments/pcard.html>

Policy 7100, Administrative Data Management and Access Policy

<https://policies.vt.edu/7100.pdf>

Commonwealth Accounting Policies and Procedures Manual, Section 10305 (ARMICS requirements), “Internal Control Guidance” dated September 2015 and as revised.

https://www.doa.virginia.gov/reference/CAPP/CAPP_Topics_Cardinal/10305.pdf

Department Business Management Guide

<https://financialmanagement.vpfin.vt.edu/business-practices/dbmg.html>

6.0 Approval and Revisions

- Revision 0
Enacted by Vice President for Business Affairs and Treasurer, Raymond D. Smoot, Jr.
- Revision 1
Annual review. Added Vice President for Business Affairs and Treasurer to recipients of annual report in Section 3.0, #6.
Approved December 15, 1989, by Vice President for Business Affairs and Treasurer, Raymond D. Smoot, Jr.
- Revision 2
Policy revised to agree with guidelines in the CAPP Manual.
Approved February 28, 1999, by Vice President for Finance and Treasurer, Raymond D. Smoot, Jr.
- Revision 3
Policy revised to reflect change in recipients of annual report in Section 3.0, #6. Section 3.0, #7 changed to reflect report to Finance and Audit Committee as a part of financial statement presentation.
Approved July 28, 2000, by Associate Vice President for Finance and Budget, M. Dwight Shelton, Jr.
- Revision 4
April 1, 2008: Updates to position titles and/or responsibilities due to university reorganization.
- Revision 5
Policy underwent a complete revision and expansion in all significant areas. Key changes include changing the name of the policy, redefining the purpose of the policy; adding definition of internal control; adding language for new legislation passed by the General Assembly and signed by the Governor for the Commonwealth of Virginia; and, defining employees, managers, and central administration responsibilities.
Approved July 25, 2019, by Vice President for Finance and Chief Financial Officer, M. Dwight Shelton, Jr.



Virginia Polytechnic Institute and State University

- Revision 6
Updates to links and department names due to departmental change.
Approved February 26, 2021 by Vice President for Policy and Governance, Kim O'Rourke.