Basic Principles of Internal Control

Internal control is the process designed to ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. Safeguarding assets against theft and unauthorized use, acquisition, or disposal is also part of internal control.

The management style and the expectations of upper-level managers, particularly their control policies, determine the control environment. An effective control environment helps ensure that established policies and procedures are followed. The control environment includes management's integrity, ethical values, and philosophy; a defined organizational structure with competent and trustworthy employees; and the assignment of authority and responsibility.

Control activities are the specific policies and procedures management uses to achieve its objectives. The most important control activities involve segregation of duties, proper authorization of transactions and activities, adequate documents and records, physical control over assets and records, and independent checks on performance. A short description of each of these control activities appears below.

- x Segregation of duties requires that different individuals be assigned responsibility for different elements of related activities, particularly those involving authorization, custody, or recordkeeping. For example, the same person who is responsible for an asset's recordkeeping should not be responsible for physical control of that asset. Requiring different individuals perform these functions creates a system of checks and balances.
- x Proper authorization of transactions and activities helps ensure that all TTUHSC activities adhere to established policies and guidelines, including Board of Regents' rules.
- x Adequate documents and records include adequate supporting documentation and timely preparation of documents.
- x Physical control over assets and records helps protect TTUHSC's assets. These control activities may include electronic or mechanical controls (such as a safe, fireproof files, and locks) or computer-related controls dealing with access privileges or established backup and recovery procedures.
- x Independent checks