Strengthening Business Practices:
The Language of Our Control Environment

Debbie Rico
Internal Controls
We are *Like* a Business

- Good control is good business
- Good control is everyone’s business
- You play an especially important role in our control systems
Why should I care about internal control?

Good internal controls help you get your job done efficiently and demonstrate that you take your responsibility for the University’s assets and public image seriously.

Poor internal controls have a negative impact on the teaching, research, and public service missions of the University, impact our reputation, and cost us our jobs.
New Audit Requirements

• Statement of Auditing Standards (SAS) No. 112 (now 115): *Communicating Internal Control Related Matters Identified in an Audit*

• Significantly tightens the requirements for reporting of internal control deficiencies
What is SAS 112 again?

Statement of Auditing Standards (SAS) 112 is an accounting standard that established guidelines for determining the seriousness of internal control issues.

Effective July 1, 2007, SAS 112 was incorporated into UCSD’s external financial audit conducted by PricewaterhouseCoopers (PwC).

SAS 112 requires that-
- Key controls exist
- Key controls are functioning effectively, and
- Key Control activities are documented
...by the way, what is Internal Control?

A *process*, put in place by people, that is designed to provide *reasonable assurance* that we will achieve the following *objectives*:

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting
3. Compliance with laws and regulations
Five Components of Internal Control - COSO

- **Management Environment or often called the Control Environment** - Tone at the top, integrity, **ethics**, competence.
- **Risk Assessment**
- **Controls Activities**
- **Monitoring**
- **Information and Communication**
Management Environment

People and the Work Environment

The foundation of sound internal control:
- Control Consciousness
- Tone at the top
- Ethics
- Integrity
- Accountability
Risk Assessment

Identify, Analyze and Manage Risks

Understand Objectives ➔ Understand Risks ➔ Manage Risks ➔ Acceptable Exposure

What are you trying to accomplish? ➔ What gets in your way? ➔ What are you doing to manage this? ➔ Where do you feel exposed?
Control Activities

Business Policies and Practices

• Two types of control activity
  – Preventive (Separation of duties, proper authorization, physical control over assets)
  – Detective (Reviews, analysis, reconciliations, physical inventories)
Monitoring

Are our control practices keeping pace?
- Ongoing monitoring activities
- Separate evaluations
Information and Communication

Capture and Exchange of Key Data

• Getting the right information to the right people in time to make quality decisions

• Systems can be formal or informal
  – Formal: sophisticated computer systems
  – Informal: periodic staff meetings
A Balancing Act

- Controls should be proactive, value-added and cost effective

- Cost of a control should not exceed the benefit derived from it
Key Control Areas – Department Responsibilities

- **Fiscal Operations Review** - actual revenues and expenses are monitored to ensure the accuracy and reliability of budget and financial information. Differences to accounting information are investigated and resolved in a timely manner.

- **Ledger Transaction Verification** – Transactions are validated with follow-up on unusual items including verifying amounts to supporting documentation, resolving exceptions, and ensuring that corrective actions are taken in a timely manner.

- **Overdraft funds** – Overdraft conditions (expenses greater than authorized budget) are monitored and documented. Corrective actions are taken to prevent or resolve overdraft conditions. Follow-up actions are performed and recorded.
Key Control Areas – Department Responsibilities

➢ **Payroll expense verification** – Detailed payroll expenses are reviewed for general propriety and to validate the accuracy of the charges. Accounting data, employee names, pay rates, and/or other key entry errors are reviewed for accuracy.

➢ **Reconciliation of Permanent Staffing List** - Permanently budgeted faculty and staff reports are reviewed, with out of balance amounts reconciled and employee accounting information checked for accuracy. Assure all changes are correct and that allocations are processed in a timely manner.

➢ **Monitoring of Clearing Accounts** (for credit card activity) – Transactions processed through accounts are reviewed for appropriateness with follow-up on unusual items. Reconciliation performed with accounting entries processed timely and variances resolved.

➢ **Physical inventory** - Review of asset reporting information/reports to ensure proper accounting of newly purchased assets, and proper certification of the location and identification of asset
Key Control Areas – Department Responsibilities

- **Security Controls / DSA** – Ensure appropriate personnel have been assigned the proper system access and individual security access is terminated for separated employees. Unused account access is reviewed with corrective action taken.

- **Effort Reporting** – Personnel Activity Reports (PARS) are certified by a responsible department official with first hand knowledge of the work performed.

- **Balance Sheet Certifications** – General ledger detail transactions are validated for general propriety, reasonableness, and accuracy is completed in a timely manner.

- **Petty Cash & Change Funds** - Verification of cash balances is performed by someone other than the fund custodian with expenditures reviewed for propriety.
CONTROL TRACKER
Control Tracker

What is it?

A web-based application developed by UCSD, in collaboration with IBM, to document the performance and certification of control activities within a Unit in compliance with SAS 112/115. The OP ERM group, in particular Grace Crickette, has supported this effort since inception. Application will be available to all UC campuses.

Application will take the place of the paper “UCSD Department Key Controls Documentation” document.
Application Features

• Accessible by Single Sign On

• Application elements configurable by individual campuses. *Examples: Identify campus control activities, establish users, create ‘reminder’ and “delinquency” notices*

• Establishes roles (Campus administrator, Unit administrator, Performer, Certifier) to determine ability to access application elements
Application Features

- View status of compliance efforts at a glance (i.e. “units” that have not performed and/or certified control activities)
- E-mail or export the data in control activity table
- See historical information by month, quarter, or year
Roles

Campus Administrator:

- Add control activities (modify, inactivate)
- Add evidence of review (modify, change description)
- Establish allowable time to complete a control activity
- Establish notification reminder parameters for e-mail
- Establish delinquency reminder parameter for e-mail
- Designate time allowed to complete control activity
- Establish security- who can access tool (i.e. identify Unit Administrators)
- Modify “unit administrator” information
- As requested from a Unit Administrator change (i.e. “undo”) a performance of a key control activity and indicate correct activity performed. *History field will reflect this change.*
- As requested from a Unit Administrator change (i.e. “undo”) certification of a key control activity and indicate correct certification. *History will affect this change.*
Roles continued...

**Unit Administrator:**
- Constructs “unit” (i.e. departments)
- Identify Unit head
- Identify performers & certifiers for each control activity
- Copy user roles from one Unit to another
- Reassign Unit department administrator role to another
- Turn “off or on” notification reminders (*can not turn off a delinquency notice*)
- Change timing of notification reminders

**Performer / Certifier:**
- Executes or certifies control activities
- Add comments
- E-mail capability
- Export capability
Performer and Certifier View
### Monthly Control Activities

<table>
<thead>
<tr>
<th>Unit</th>
<th>Fiscal Operations Review</th>
<th>Ledger Transaction Verification</th>
<th>Overdraft Funds Review</th>
<th>Payroll Expense Verification</th>
<th>Credit Card Activity - Cash Clearing Accounts (Not Express Card)</th>
<th>Status</th>
<th>Action</th>
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<tbody>
<tr>
<td>Admin/Metrics</td>
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<th>Reconciliation of Permanent Starting List</th>
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### Monthly Control Activity View

**Monthly Control Activities: 11, 2011**

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<th>Ledger Transaction Verification</th>
<th>Overdraft Funds Review</th>
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1/31/2012
**Perform a Control Activity**

Department Key Controls must be documented in such a fashion to demonstrate the review and follow-up activities were performed. Certain Financial Link tools can assist in these reviews and have been noted where appropriate. Business officers and department heads must certify that each of the following key control functions are properly performed on a timely basis.

### Payroll Expense Verification

Detailed payroll expenses are reviewed each month by departments for general propriety and to validate the accuracy of the charges. Departments review the accuracy of accounting data, employee names, pay rates, and/or for possible other key entry errors.

#### Evidence of Review: Please select any one of the below

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<th>Evidence Name</th>
<th>Evidence Description</th>
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<tr>
<td></td>
<td>Financial Link Tool- Ledger Reviewer</td>
<td>Monthly review and verification of account 60 Faculty Salaries, 61 Staff Salaries, 62 General Assistance, and 66 benefits budget and expenditure transactions. Audit of reviewed and certified costs noted as OK on problem code drop-down menu.</td>
</tr>
<tr>
<td></td>
<td>Post Authorization Notification System (PAN)</td>
<td>Review of all PAN notifications to assure that salary, fte, benefit designation, comments and accounting entries into the campus payroll system are authorized, accurate and complete. Please</td>
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</tbody>
</table>

**Comments:**

**History:**

Submit  Cancel
After you have performed activity...

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1/31/2012
Unit Administrator View
Initial Unit Administrator Screen
Admin/Metrics Unit

Unit Name: Admin/Metrics
Org/Index-UCSD: 660501
Unit Admin: Laura Osante
Unit Head: ANGELA SONG

Control Activity Roles

<table>
<thead>
<tr>
<th>Employee Name</th>
<th>Fiscal Operations Review</th>
<th>Ledger Transaction Verification</th>
<th>Overdraft Funds Review</th>
<th>Payroll Expense Verification</th>
<th>Credit Card Activity- Cash Clearing Accounts (Not Express Card)</th>
<th>Effort Reporting</th>
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</thead>
<tbody>
<tr>
<td>HUH, JEE</td>
<td>P ✓ C □</td>
<td>P ✓ C □</td>
<td>P ✓ C □</td>
<td>P ✓ C □</td>
<td>P ✓ C □</td>
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<tr>
<td>Osante, Laura</td>
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<td>P ☐ C ☑</td>
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<td>SONG, ANGELA</td>
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<td>P ☐ C ✓</td>
</tr>
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</table>

- Performer Notifications
- Certifier Notifications

Save Changes: Reset:
Notifications

Performing Notifications

Certifier Notifications

When initial e-mail should be sent:  
- None

First day the activity is available to be performed. Value is an offset in days based on the time allowed to complete activity.

When 1st e-mail reminder should be sent: 19  
- None

Days before the activity will not be available for performing (e.g., five days before following month’s end). Value is an offset in days based on the last day the activity can be performed.

When 2nd e-mail reminder should be sent: 9  
- None

Last day before the activity will not be available for performing (e.g., last day of following month’s end). Value is an offset in days based on the last day the activity can be performed.
Creating a Unit....
### New Unit Created

**Unit Name:** Procurement

**Org/Index-UCSD:** 661110

**Unit Admin:** Laura Ose

**Unit Head:** DONALD

<table>
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<tr>
<th>Employee Name</th>
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Employee added to Unit

Unit Name: Admin/Metrics
Org/Index-UCSD: 660501

Unit Admin: Laura Osante
Unit Head: ANGELA SONG

Control Activity Roles

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Adding an Employee to Unit
Employee added to Unit

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Control Tracker Steps

- UCSD pilot began January 2011 in Student Affairs
- Business and Financial Services launch began in October 2011
- IBM programming for Phase II items in January 2012
- Campus-wide launch by VC area continuing through 2012
- All UC launch coordinated with individual campuses

Additional information- contact Debbie Rico at drico@ucsd.edu