Communicating Internal Control
Related Matters Identified in an Audit
What is SAS 112?

- Establishes standards for communicating internal control issues affecting:
  - Integrity of financial reporting
  - Compliance with applicable laws and regulations

- Establishes standards for classifying control issues:
  - control deficiency (bad)
  - significant deficiency (worse)
  - material weakness (worst)
SAS 112-Background

- Objective is to ensure internal control concerns are communicated to Management
- Issued by the American Institute of Certified Public Accountants (AICPA)
- SAS112 is specific to non-profit organizations (our version of SOX)
- Government Audit Standards have incorporated SAS112
Control Issue Defined: Control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis.

Examples:
- Untimely cash deposits
- Incomplete and/or untimely account reconciliations
- Untimely and/or insufficiently documented cost transfers
- Lack of evidence of reconciliation and review of departmental expenditures (sponsored and non-sponsored funds)
SAS112-Dept Key Controls

- Departmental Controls-Sponsored Programs:  
  http://accounting.ucr.edu/documents/sas112dca133.doc

- Departmental Controls-Financial (General):  
Impact of SAS 112 on UCR
- Due to significant changes in the valuation of control exceptions and more stringent audit standards, UCR is more likely to encounter control issues being identified and reported
Potential Impact of a Control Deficiency and/or Material Weakness Disclosure

- Reputation jeopardized
- Increased audits
- Disallowances, fines and penalties
- Loss of current and future sponsored project funding
- Reduced campus resources
What does SAS 112 Mean to You?

- Generally, internal controls at UCR are in order and adequate. However the following functions deserve continuous review:
  - Ledger reconciliations
  - Certified effort reports
  - Cost transfers
  - Award close out
  - Budget variance analysis
  - Cash handling
  - Expense and Revenue monitoring
  - Payroll processing and Timekeeping
  - Fiscal year end processes
SAS 112

• Formal documentation of internal controls
• Documenting and retaining evidence of internal controls performed
• Examples;
  - Document method of allocating costs among multiple awards
  - Preparer signs & dates AND reviewer signs & dates
OMB Circular A-133
Audits of States, Local Governments, and Non-Profit Organizations
A-133 Audit

- OMB Circular A-133 sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards.
- Also referred to as the Single Audit Act
- All federal contract and grant awards are subject to A-133 Audits
A-133 Audit

• University of California receives an A-133 audit annually in conjunction with annual financial audit

• UCR is included in UC’s A-133 audit

• The UC A-133 Audit is posted at http://www.ucop.edu/costingpolicy/a133auditinfo.html

• Results posted to the Federal Audit Clearinghouse
A-133 Audit

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<th>Part II: FINANCIAL STATEMENTS (To be completed by auditor)</th>
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<td>1. Type of audit report</td>
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Other Audits
Specific Award Audits/Reviews

- All individual awards are subject to Agency audit and review upon notice
- If contacted by Agency notify EMF Accounting immediately
- The Controller, AVC Financial Services, is the point of contact on all external audits
OIG Audit Plans

- Each federal agency, through its Office of the Inspector General (OIG) publishes annual audit plans
- The plans generally indicate areas of emphasis and interest for the agency
  - Certain themes and concerns are often shared between the agencies
Contract & Grant Orientation

OIG - Areas of Focus

- NSF OIG
  - Thematic focus
    - Taxpayer investment
    - Financial & programmatic accountability
  - Salaries and wages claimed by universities
  - Effort reporting at major universities
    - Focusing on grantee systems to safeguard and account for NSF funds
  - Audit of select awards to universities
  - Desk reviews of grantee A-133 audit reports
OIG - Areas of Focus

- HHS - OIG
  - Grantee management of conflicts of interest
    - Review the nature of reported interests in FY 06 and how institutions managed the conflicts
    - Review how NIH managed grantee compliance

- University administrative & clerical salaries
  - Review will encompass grants, cooperative agreements and contracts at selected universities

- Colleges’ and Universities’ compliance with cost principles
  - Reviews will be conducted at selected institutions
UCR – Areas of Concern

- **Effort reporting**
  - Incomplete / missing, late

- **Cost transfers**
  - High volume, timeliness & documentation

- **Subrecipient monitoring**

- **Cost sharing**
  - Compliance with cost principles & reporting

- **Award close-out**
  - Delinquent financial and technical reports
Addressing the Concerns

- **Training**
  - Expanding campus sponsored programs training program

- **Roles and responsibilities document**
  - Effective information & training tool
  - Mitigating factor for fines & penalties

- **Electronic tools**
  - Implement new on-line effort reporting
    - Including cost sharing component
  - Ledger reconciliation and review system