Annual Unit Certification of Financial Results and Internal Controls
History

- Began with **2005 FY**

- **High degree of decentralization** in higher education

- Designed to **improve awareness and accountability** related to fiscal stewardship and internal controls

- Leverages **best practices** from Sarbanes-Oxley Act
**Annual Process**

- Deans, Directors, Vice Presidents **sign annual Certification Form** to attest that they
  - Meet fiscal and stewardship responsibilities
  - Review & understand unit’s financial performance and confirm it fairly represents activities
  - Aware of and committed to enforcing appropriate internal controls in unit

- Certification form submitted by **46 units** across campus each year
  - Schools/Colleges, Health System, Staffs, Flint, Dearborn

- Occurs **every September** after closure of prior fiscal year results
  - Early September: Certification Requests issued
  - End September: Certification Submissions due
End Result of the Annual Process

- **Summarize and present results** to Regents in Finance, Audit and Investment Committee
- **Drive the right behavior**

**Trend of “Yes” Responses**

- **Internal Controls** – Processes that require units to perform annual gap analysis of key controls
- **All Other** – Attestation topics such as Stewardship, Financial Results, IT Security and other key risk related topics

---

<table>
<thead>
<tr>
<th>Year</th>
<th>Internal Controls</th>
<th>All Other Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2007</td>
<td>63%</td>
<td>78%</td>
</tr>
<tr>
<td>FY2008</td>
<td>74%</td>
<td>81%</td>
</tr>
<tr>
<td>FY2009</td>
<td>83%</td>
<td>87%</td>
</tr>
<tr>
<td>FY2010</td>
<td>87%</td>
<td>89%</td>
</tr>
<tr>
<td>FY2011</td>
<td>93%</td>
<td>93%</td>
</tr>
<tr>
<td>FY2012</td>
<td>92%</td>
<td>91%</td>
</tr>
<tr>
<td>FY2013</td>
<td>96%</td>
<td>94%</td>
</tr>
</tbody>
</table>
"Yes" Response:
1st Year – Gap analysis completed and plans in place for addressing control gaps within the next 12 months
On-Going – Unit has completed annual gap analysis and proper controls are in place
Key Unit Operational Elements/Tasks

- Internal Controls Gap Analysis
- Written Procedure Documentation
- Management Oversight Reporting
- Department Sub-Certification
Key Unit Operational Elements/Tasks

- **Internal Controls Gap Analysis**
  - Written Procedure Documentation
  - Management Oversight Reporting
  - Department Sub-Certification
What is a Gap Analysis?

- **Annual review** of key unit internal control points for *select* financial related processes highlighted in the Unit Certification process
  - ✓ Employment
  - ✓ P-Card
  - ✓ Journal Entries
  - ✓ Cash Handling
  - ✓ Gifts
  - ✓ Gift Cards
  - ✓ Employee Travel & Expense (Concur)
  - ✓ Human Subject Incentive Payments (HSIP)
  - ✓ Unit Administered Financial Aid

- Annual review **validates controls are in place** to
  - ➢ Minimize risk
  - ➢ Improve efficiency and effectiveness
  - ➢ Accommodate for changes in people, process, systems
  - ➢ Unintended/unknown implications
What is a Gap Analysis?

- **Not all** financial related processes **apply** to all units/departments

**Examples:**
- Unit did **not** have any gift card usage in the FY
- Non-research staff did **not** have any Human Subject Incentives in the FY

- Should be **completed by individuals involved in process** (i.e. handling cash, processing journal entries, etc.)

- University Audits noted the **more robust** the gap analysis **process**, the **better** the department **controls**
**Why perform a Gap Analysis?**

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>Process over $225 mil in gross pay each month, and 20,000-25,000 job related transactions (i.e. appointment related, pay change) per month</td>
</tr>
<tr>
<td>P-Card</td>
<td>6,150 P-Card holders across campus; 4,600 statements reconciled/approved monthly, representing approx. $9 mil or 33,000 purchase transactions per month</td>
</tr>
<tr>
<td>Journal Entries</td>
<td>Process 45,000-50,000 non-system generated journal entries per year including 900,000 line items</td>
</tr>
<tr>
<td>Cash Handling</td>
<td>Processed over 40,000 departmental deposits in FY 2011 totaling over $340 mils (excludes patient and student tuition)</td>
</tr>
</tbody>
</table>
How to perform a Gap Analysis

- Process consists of **assessing series of control points/questions**
- Different mechanisms available to facilitate gap analysis process:

1. **Gap Analysis On-line Tool in MReports**
   - Eliminates use of Excel spreadsheets
   - Records prior year responses
   - Easier mechanism to distribute to multiple individuals and departments
   - Automatically summarizes multiple departments to highlight trends, common issues, etc.

2. **Gap Analysis Excel Spreadsheet**
   - Lists control points in easy to use “tool” format
How to perform a Gap Analysis

1st Mechanism: Gap Analysis Excel Spreadsheet
An example for the Journal Entry process

<table>
<thead>
<tr>
<th>Key Control</th>
<th>Control in Place (Y/N?)</th>
<th>Comments</th>
<th>Corrective Action Plan</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written procedures are in place that clearly outline which positions are</td>
<td>N</td>
<td>Written procedures do not exist detailing local journal entry</td>
<td>Analyst “A” will document procedures, identifying key activities, roles, and responsibilities related to the journal</td>
<td>1/1/2012</td>
</tr>
<tr>
<td>authorized to process J.E.s, which positions are authorized to approve J.E.s,</td>
<td></td>
<td>entry procedures and position responsibilities.</td>
<td>entry process.</td>
<td></td>
</tr>
<tr>
<td>the position(s) authorized to grant that responsibility, and the details of</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>other J.E. unit procedures such as determining appropriateness, as well as</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the local methodology for processing and approving J.E.s.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
How to perform a Gap Analysis

2\textsuperscript{nd} Mechanism: Gap Analysis On-Line Tool in MReports
An example for the Journal Entry process
Key Unit Operational Elements/Tasks

- Internal Controls Gap Analysis

- **Written Procedure Documentation**
  - Management Oversight Reporting
  - Department Sub-Certification
What is written procedure documentation?

- Documented procedures = **key control**
  - Clarify roles and responsibilities
  - Ensure process is happening as intended
  - Help with employee turnover (expected/unexpected)
Units don’t have to start from scratch

- Templates are located on the Internal Controls website: http://www.finance.umich.edu/controls/tools

- Key control points from internal control gap analysis tool

- Units can customize templates as appropriate to reflect unit specific procedures

- Links to related training, websites, etc
Key Unit Operational Elements/Tasks

- Internal Controls Gap Analysis
- Written Procedure Documentation
- **Management Oversight Reporting**
- Department Sub-Certification
What is Management Oversight Reporting?

- Monitoring/oversight = **key control**
  - Helps to highlight if operating controls are working
  - Identifies trends/exceptions
  - High level summaries (by month/year, comparing to prior years, etc.)

<table>
<thead>
<tr>
<th>Employment</th>
<th>Has time been entered timely and properly approved?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Are overtime, temp and retro pay reasonable?</td>
</tr>
<tr>
<td>P-Card</td>
<td>Are P-Card holders appropriate?</td>
</tr>
<tr>
<td>Cash Handling</td>
<td>Are credit limits appropriate compared to spend levels?</td>
</tr>
<tr>
<td>Concur</td>
<td>Have proper individuals taken cash handling training?</td>
</tr>
<tr>
<td>Gifts</td>
<td>Are credit card merchants PCI compliant?</td>
</tr>
<tr>
<td></td>
<td>Are proper individuals approving expenses?</td>
</tr>
<tr>
<td></td>
<td>Are spending levels and patterns appropriate?</td>
</tr>
<tr>
<td></td>
<td>Are gift funds used in a reasonable amount of time?</td>
</tr>
<tr>
<td></td>
<td>Are there gift funds with negative balances?</td>
</tr>
</tbody>
</table>
How to access Management Oversight Reports

- All oversight reports can be found on the Internal Control website: http://www.finance.umich.edu/controls/tools

- Some oversight reports are in Business Objects and some are in MReports

- A listing of additional internal control related reports is also available on the website
Key Unit Operational Elements/Tasks

- Internal Controls Gap Analysis
- Written Procedure Documentation
- Management Oversight Reporting

➤ Department Sub-Certification
What is Department Sub-Certification?

- Provides support/basis for Dean/Director/Vice President Certification

Sub-Certification vs. Certification

Sub-certification is performed at the department level in order to support the Certification of Financial Results & Internal Controls that the Dean/VP/Director signs.

Sub-Certification Answers

- YES - All work completed...
- PARTIALLY - Completed some but not all work...
- NO - Have not yet started...

Sub-Certification Completion

- Either complete via a hard copy or on-line in MReports
- Does not replace official unit hard-copy certification form to be signed by Deans/VPs/Directors and submitted to the Office of Internal Controls.
What is Department Sub-Certification?

- Certification/Attestation Categories
  1. Stewardship
  2. Financial Results
  3. Internal Controls / Risk Management
     - Conflict of Interest
     - IT Security
     - “Red Flags” Identify Theft

Examples
How to perform Department Sub-Certification

- Approver/Certifier can **log into MReports** and answer the Certification questions his/herself and then approve by checking the box.
- Approver/Certifier could **appoint someone** else to answer the questions on their behalf. They would still need to log to confirm answers and approve.
- MReports requires **MToken**.
Internal Control Related Resources

- The Office of Internal Controls website: [http://www.finance.umich.edu/controls](http://www.finance.umich.edu/controls)
  - Provides guidance, support tools, and documents
  - Helps units across campus manage financial related processes

- Contact The Office of Internal Controls: [http://www.finance.umich.edu/controls/contact](http://www.finance.umich.edu/contacts)
  - Brent Haase, Internal Controls Manager: 734.763.0260 or haasebr@umich.edu
  - Lynn Cohan, Internal Controls Coordinator: 734.615.0121 or cohanv@umich.edu

- University Audits website: [http://www.umich.edu/~uaudits/](http://www.umich.edu/~uaudits/)

- Compliance Resource Center website: [http://www.compliance.umich.edu/](http://www.compliance.umich.edu/)

- Compliance Hotline website: [http://compliancehotline.umich.edu/](http://compliancehotline.umich.edu/)
Questions?