The Annual Internal Controls Annual Certification Process
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

An example of decentralization
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
# Unit Certification Timeline

<table>
<thead>
<tr>
<th>Event</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roll-out control guidance and plans to units</td>
<td>Jan – Jun</td>
</tr>
<tr>
<td>Units complete gap analysis</td>
<td>Feb – Sept</td>
</tr>
<tr>
<td>Issue Certification Requests</td>
<td>Early Sept</td>
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<tr>
<td>Signed Unit Certification Forms due</td>
<td>End Sept</td>
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<tr>
<td>Present Unit Certification Results to Audit Committee</td>
<td>November</td>
</tr>
</tbody>
</table>
FY 2016 Unit Certification Results

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
FY 2016 Unit Certification Results

"Yes" Responses - Internal Controls

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment/Payroll</th>
<th>P-Card</th>
<th>Journal Entry</th>
<th>Cash Handling</th>
<th>Gift Cards</th>
<th>Travel &amp; Expense</th>
<th>Human Subject Incentives</th>
<th>Unit Administered Financial Aid</th>
<th>Financial Stewardship of Gifts</th>
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<tbody>
<tr>
<td>FY 2007</td>
<td>63%</td>
<td>95%</td>
<td>93%</td>
<td>98%</td>
<td>98%</td>
<td>95%</td>
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<td>100%</td>
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<td>FY 2011</td>
<td>74%</td>
<td>74%</td>
<td>74%</td>
<td>80%</td>
<td>84%</td>
<td>70%</td>
<td>89%</td>
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<td>FY 2012</td>
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<td>FY 2013</td>
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<td>80%</td>
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<td>86%</td>
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<td>FY 2016</td>
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“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
- Unit 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**
# Departmental Gap Analysis Approach

<table>
<thead>
<tr>
<th>Department</th>
<th>Employment</th>
<th>P-Card</th>
<th>Journal Entries</th>
<th>Cash Handling</th>
<th>Gifts</th>
<th>Gift Cards</th>
<th>Employee Travel &amp; Expense (Concur)</th>
<th>Human Subject Incentive Payments (HSIP)</th>
<th>Unit Administered Financial Aid</th>
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<tr>
<td>Department 1</td>
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<tr>
<td>Department 10</td>
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<td>✔</td>
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<td>✔</td>
</tr>
</tbody>
</table>

* ✔ = Department to complete gap analysis & sub-certification
Why perform a Gap Analysis?

University of Michigan (Directional)

- **Employment**
  - Process over $3 billion in employee compensation annually

- **P-Card Journal**
  - Approximately 6,000 P-Card holders with open cards across campus
  - Process approximately 100,000 journal entries annually

- **Entries Cash**
  - Processed over 30,000 departmental deposits in FY 2015 totaling over $500 million

- **Handling Gifts**
  - Approximately $230 million in gift fund balance
  - Approximately $250 million in gift expenses annually (does not include transfers)

- **Credit Cards**
  - Almost 500 Credit Card Merchants
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

**1\textsuperscript{st} Mechanism: Gap Analysis Excel Spreadsheet**  
An example for the Journal Entry process

<table>
<thead>
<tr>
<th>Key Roles</th>
<th>Is 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 authorized to submit J.E.s, which positions are authorized to approve J.E.s. and the details of other J.E. unit procedures such as determining appropriateness, local methodology for submitting, approving, and monitoring J.E. activity.</td>
<td>N</td>
<td>Written procedures do not exist detailing local journal entry procedures and position responsibilities.</td>
<td>John Doe will document procedures, identifying key activities, roles and responsibilities related to the journal entry process.</td>
<td>3/5/2015</td>
</tr>
</tbody>
</table>
How to perform a Gap Analysis

2nd 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>Category</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>Has time been entered timely and properly approved?</td>
</tr>
<tr>
<td></td>
<td>Are overtime, temp and retro pay reasonable?</td>
</tr>
<tr>
<td></td>
<td>Are P-Card holders appropriate?</td>
</tr>
<tr>
<td>P-Card</td>
<td>Are credit limits appropriate compared to spend levels?</td>
</tr>
<tr>
<td>Cash Handling</td>
<td>Have proper individuals taken cash handling training?</td>
</tr>
<tr>
<td>Concur</td>
<td>Are credit card merchants PCI compliant?</td>
</tr>
<tr>
<td>Gifts</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 there gift funds with negative balances?</td>
</tr>
<tr>
<td></td>
<td>Are gift balances being used?</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 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.

**Sub-Certification Answers**

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

Diagram:
- Dean
- Dept Chair A
- Dept Chair B
- Dept Chair C
- Sub-certifying Departments
- 1 of 46 Certifying Units
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 Duo Two-Factor Security.
Internal Control Related Resources

- The Office of Internal Controls website: 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
  - Brent Haase, Internal Controls Manager: 734.763.0260 or haasebr@umich.edu
  - Kay Bressler, Internal Controls Data Analyst: 734.763-4369 or bressler@umich.edu
  - Emily Shields, Internal Controls Analyst: 734.615.0121 or shiea@umich.edu
- University Audits website: http://www.umich.edu/~uaudits/
- Compliance Resource Center website: http://www.compliance.umich.edu/
- Compliance Hotline website: http://compliancehotline.umich.edu/