# The Annual Internal Controls Annual Certification Process

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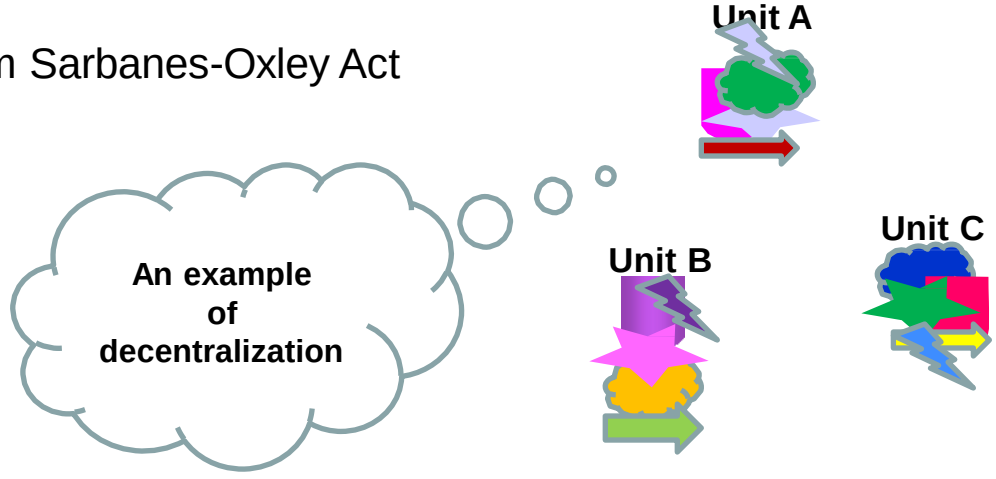
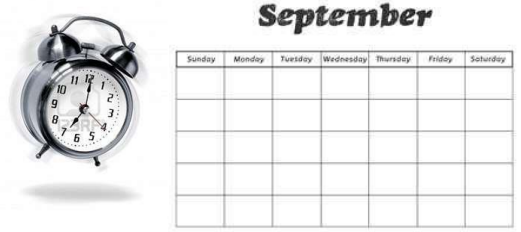
The Office of Internal Controls

# 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

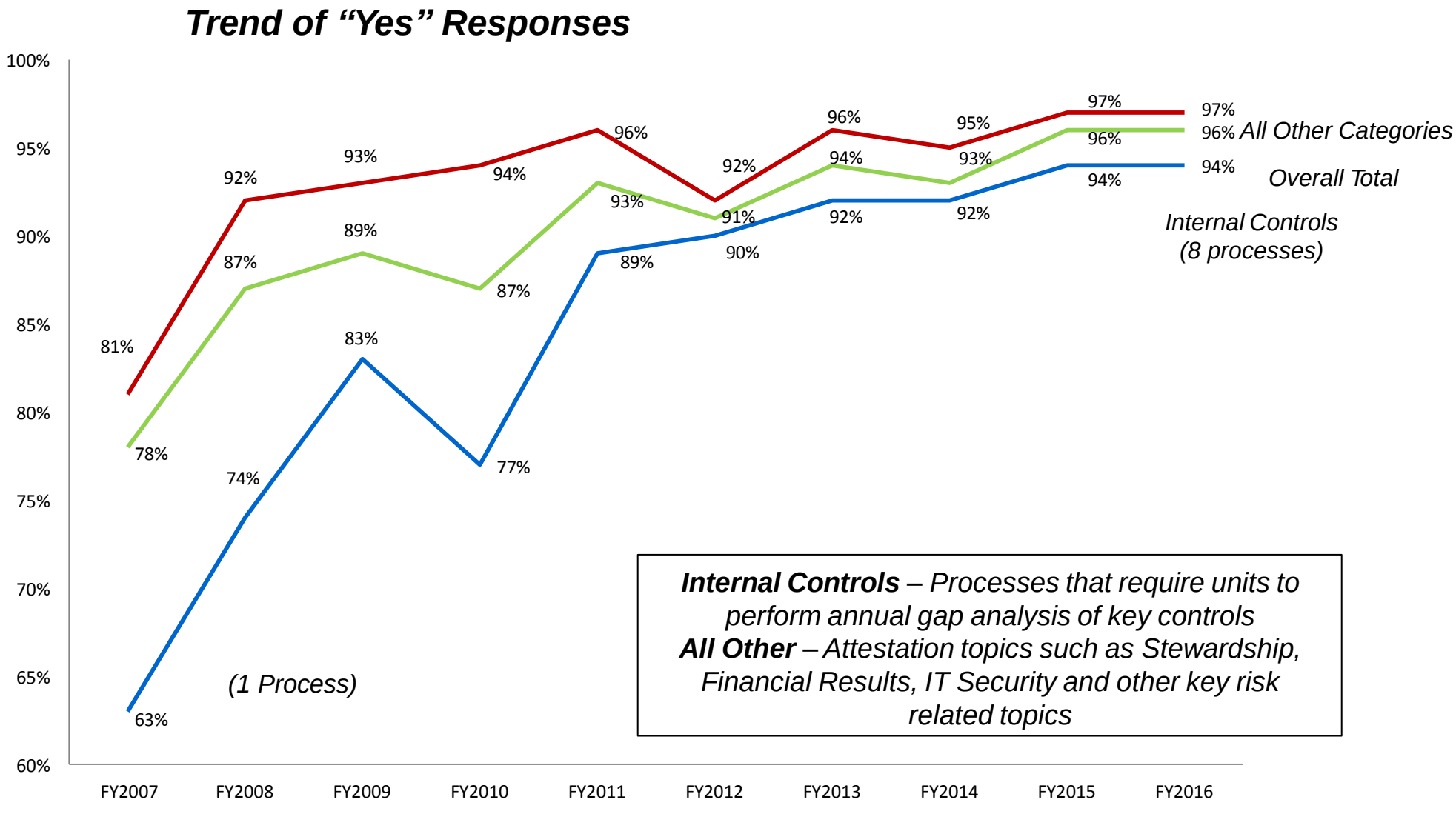
- Certification form submitted by **46 units** across campus each year
  - Schools/Colleges, Health System, Staffs, Flint, Dearborn

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

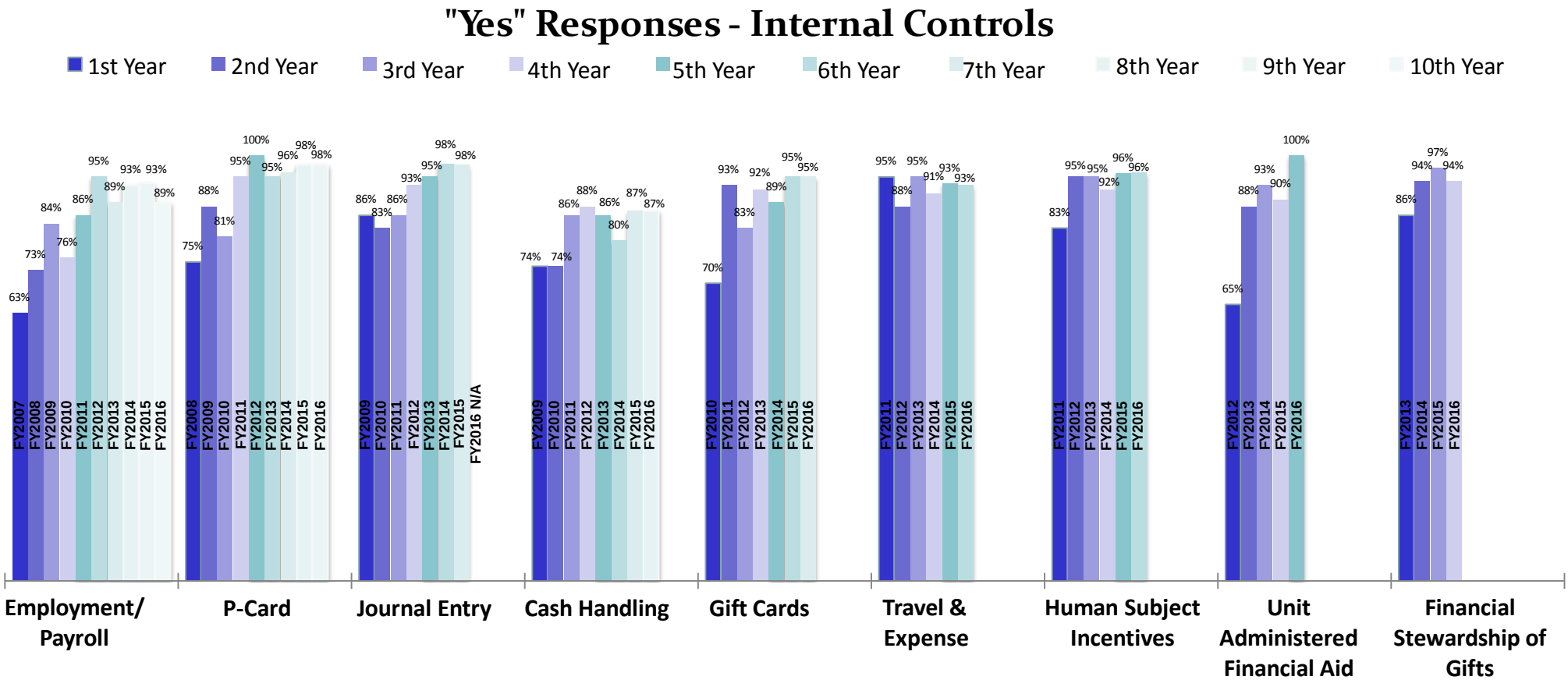
# Unit Certification Timeline

| Event | Timing |
| --- | --- |
| • Roll-out control guidance and plans to units | Jan – Jun |
| • Units complete gap analysis | Feb – Sept |
| • Issue Certification Requests | Early Sept |
| • Signed Unit Certification Forms due | End Sept |
| • Present Unit Certification Results to Audit Committee | November |

# FY 2016 Unit Certification Results



# FY 2016 Unit Certification Results




***"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*

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# 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

| Department | Employment | P-Card | Journal Entries | Cash Handling | Gifts | Gift Cards | Employee Travel & Expense (Concur) | Human Subject Incentive Payments (HSIP) | Unit Administered Financial Aid |
|---|---|---|---|---|---|---|---|---|---|
| Department 1 | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| Department 2 | ◆ | ◆ | | | | | ◆ | | |
| Department 3 | ◆ | ◆ | | | ◆ | ◆ | ◆ | | ◆ |
| Department 4 | ◆ | ◆ | | ◆ | ◆ | | ◆ | | |
| Department 5 | ◆ | ◆ | | | ◆ | | ◆ | | ◆ |
| Department 6 | ◆ | ◆ | ◆ | ◆ | ◆ | | ◆ | | ◆ |
| Department 7 | ◆ | ◆ | | ◆ | ◆ | | ◆ | | ◆ |
| Department 8 | ◆ | ◆ | | | | | ◆ | | ◆ |
| Department 9 | ◆ | ◆ | ◆ | ◆ | ◆ | | ◆ | | |
| Department 10 | ◆ | ◆ | | | | | ◆ | | ◆ |
| | | | | | | | | | |
| | | | | | | | | | |

◆ = 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 |
| Entries Cash | Process approximately **100,000** journal entries annually |
| Handling Gifts | Processed over **30,000** departmental deposits in FY 2015 totaling over **$500 million** |
| Credit Cards | Approximately **$230 million** in gift fund balance<br>Approximately **$250 million** in gift expenses annually (does not include transfers) |
| | 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

## 1st Mechanism: Gap Analysis Excel Spreadsheet

### An example for the Journal Entry process

| Key Roles | Is Control in Place? Y/N | Comments | Corrective Action Plan | Timing |
|---|---|---|---|---|
| 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. | N | Written procedures do not exist detailing local journal entry procedures and position responsibilities. | John Doe will document procedures, identifying key activities, roles and responsibilities related to the journal entry process. | 3/5/2015 |

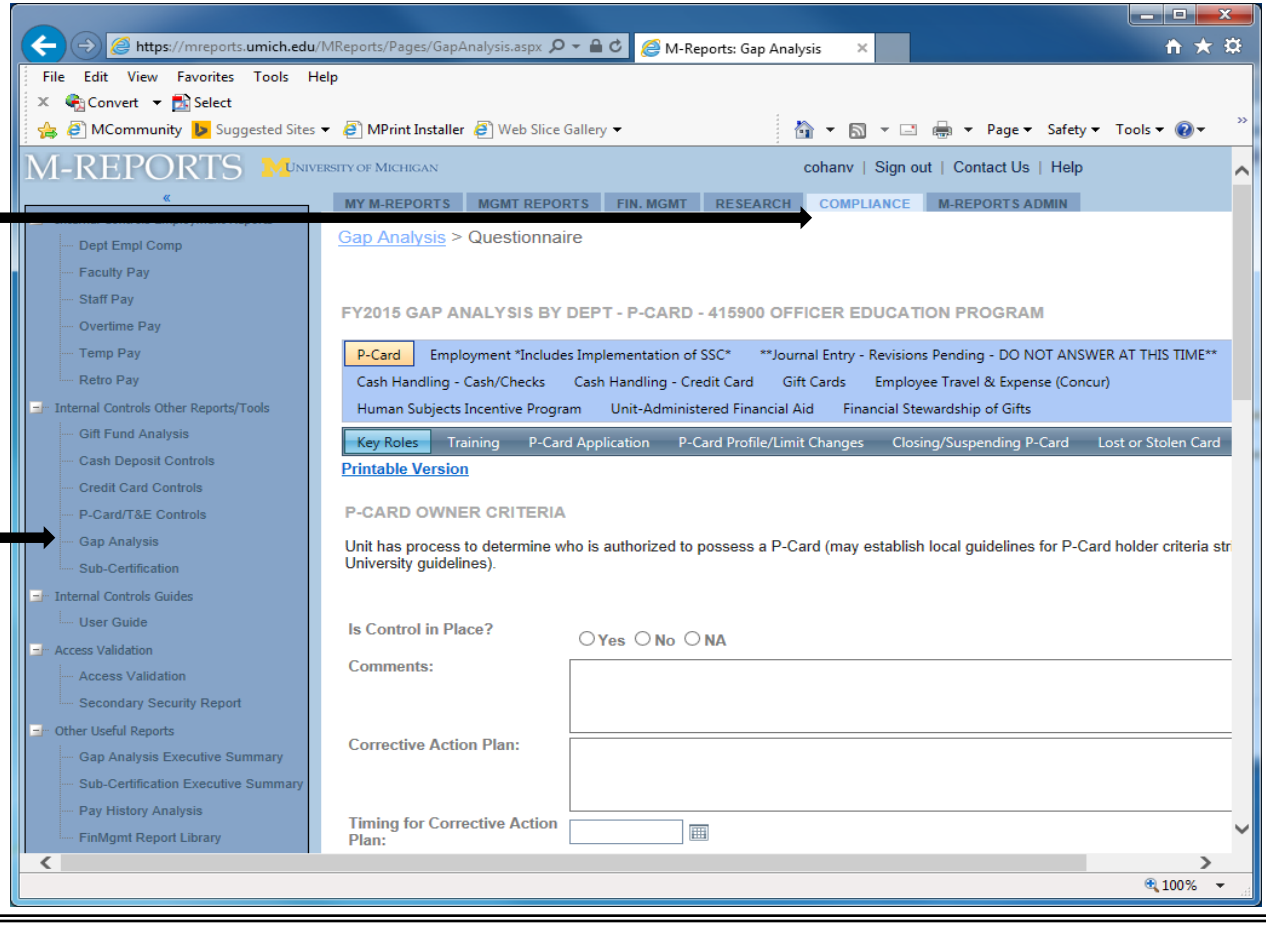
# How to perform a Gap Analysis

## 2nd Mechanism: Gap Analysis On-Line Tool in MReports

### An example for the Journal Entry process

Compliance Tab

Gap Analysis

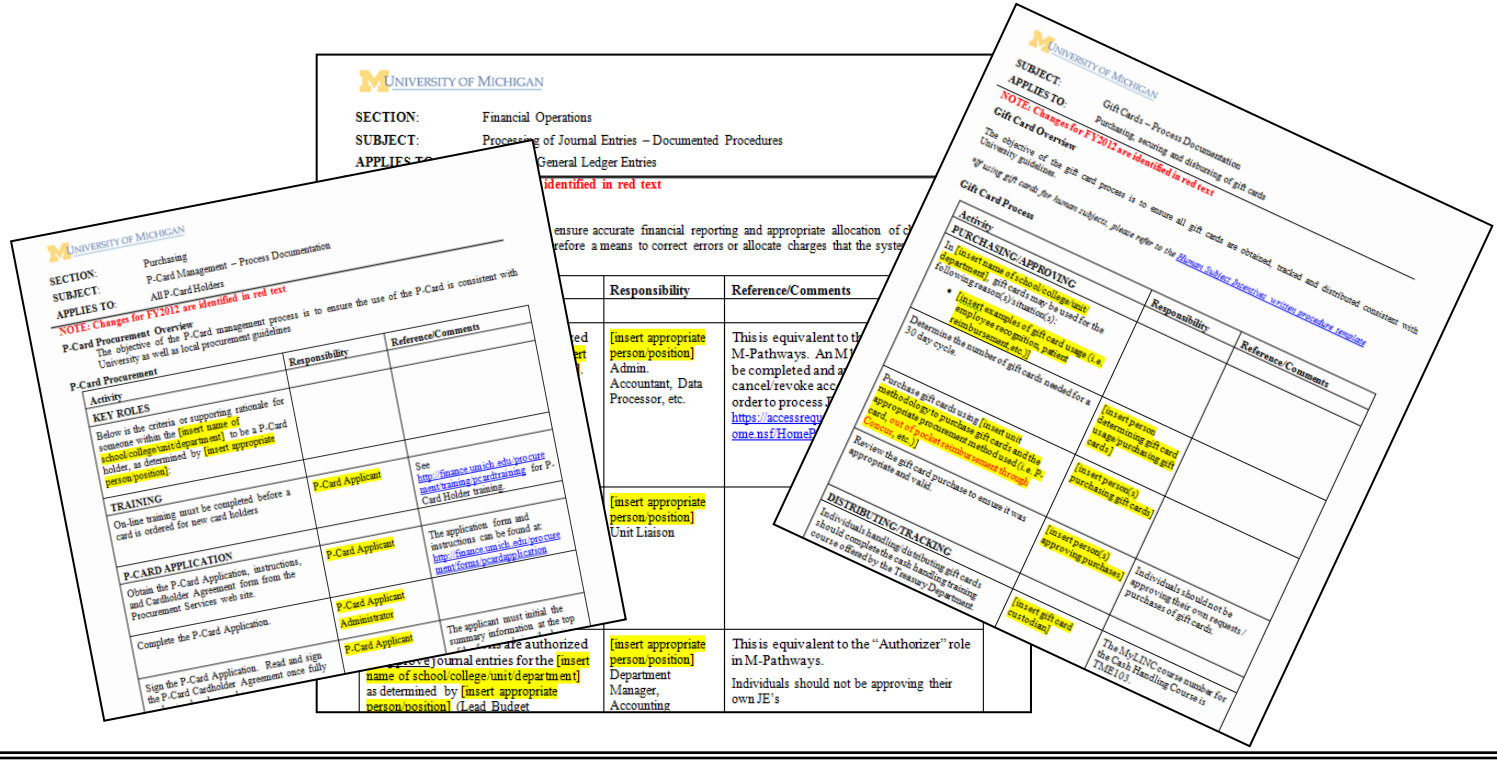


# Key Unit Operational Elements/Tasks

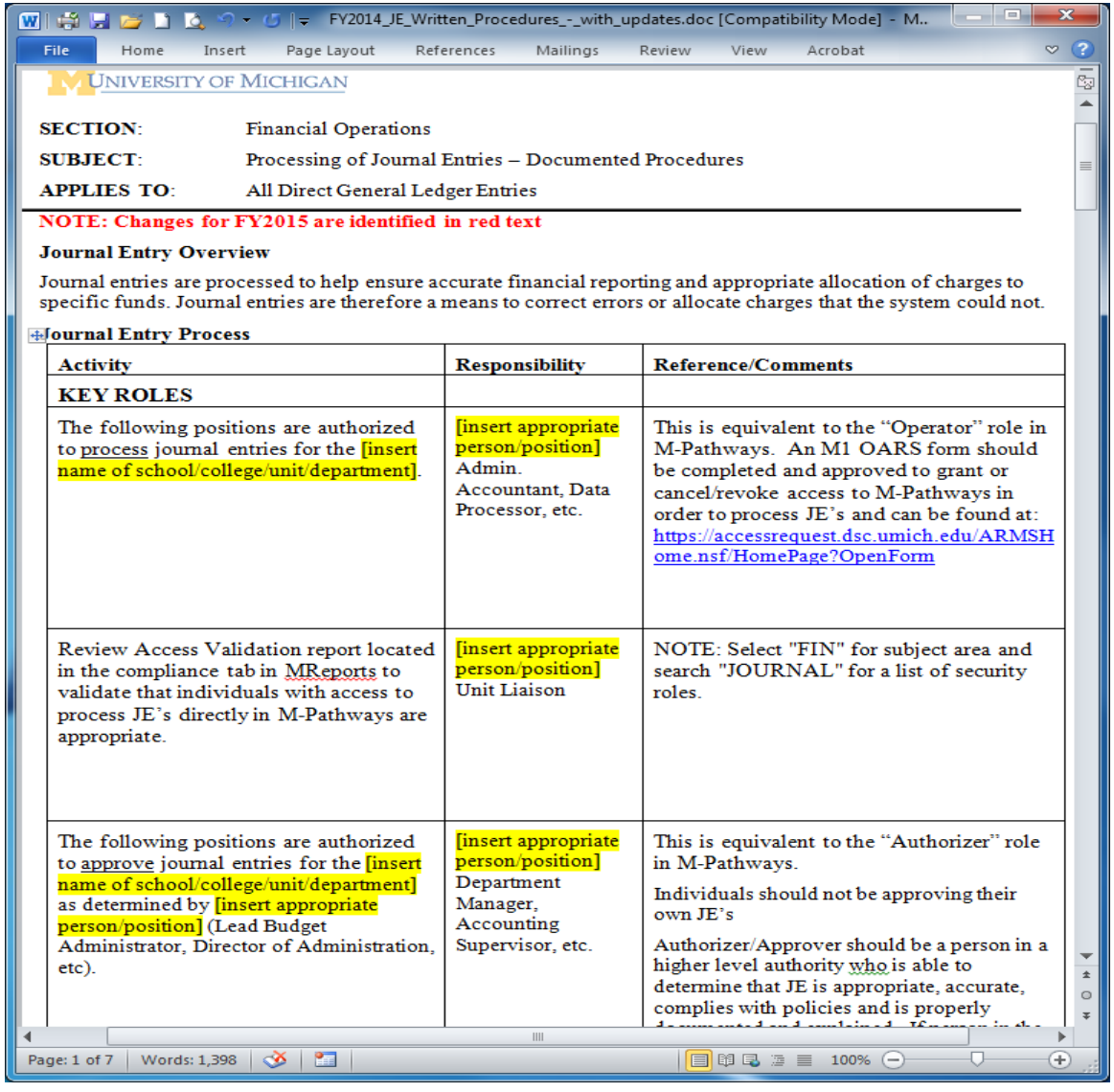
- Internal Controls Gap Analysis
- **Written Procedure Documentation**
- Management Oversight Reporting
- Department Sub-Certification

# 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



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**SECTION:** Financial Operations

**SUBJECT:** Processing of Journal Entries – Documented Procedures

**APPLIES TO:** All Direct General Ledger Entries

**NOTE: Changes for FY2015 are identified in red text**

**Journal Entry Overview**

Journal entries are processed to help ensure accurate financial reporting and appropriate allocation of charges to specific funds. Journal entries are therefore a means to correct errors or allocate charges that the system could not.

**Journal Entry Process**

| Activity | Responsibility | Reference/Comments |
|---|---|---|
| **KEY ROLES** | | |
| The following positions are authorized to process journal entries for the [insert name of school/college/unit/department]. | [insert appropriate person/position] Admin. Accountant, Data Processor, etc. | This is equivalent to the "Operator" role in M-Pathways. An M1 OARS form should be completed and approved to grant or cancel/revoke access to M-Pathways in order to process JE's and can be found at: https://accessrequest.dsc.umich.edu/ARMSHome.nsf/HomePage?OpenForm |
| Review Access Validation report located in the compliance tab in MReports to validate that individuals with access to process JE's directly in M-Pathways are appropriate. | [insert appropriate person/position] Unit Liaison | NOTE: Select "FIN" for subject area and search "JOURNAL" for a list of security roles. |
| The following positions are authorized to approve journal entries for the [insert name of school/college/unit/department] as determined by [insert appropriate person/position] (Lead Budget Administrator, Director of Administration, etc). | [insert appropriate person/position] Department Manager, Accounting Supervisor, etc. | This is equivalent to the "Authorizer" role in M-Pathways.<br>Individuals should not be approving their own JE's<br>Authorizer/Approver should be a person in a higher level authority who is able to determine that JE is appropriate, accurate, complies with policies and is properly |

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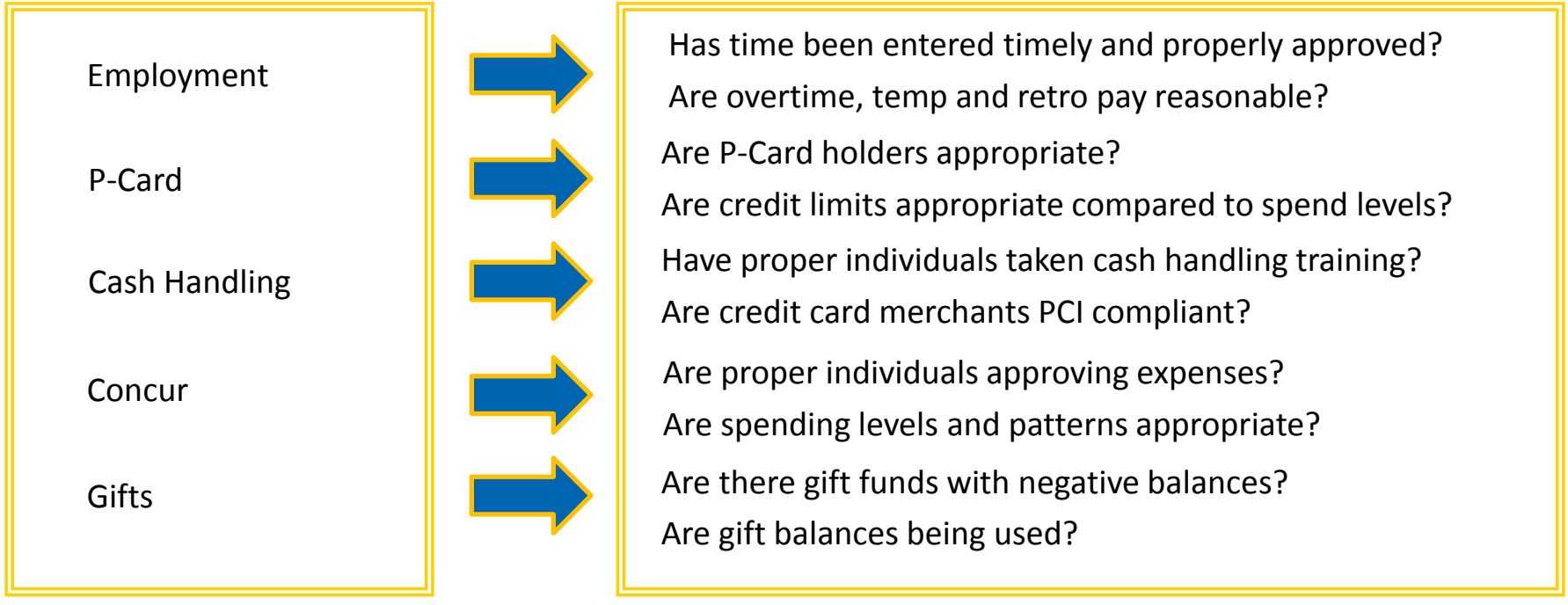
- Templates are located on the **Internal Controls website**: http://www.finance.umich.edu/controls/tools
- **Key control points** from internal control gap analysis tool
- Units can **customize templates as appropriate** to reflect unit specific procedures
- Links to related training, websites, etc

# Key Unit Operational Elements/Tasks

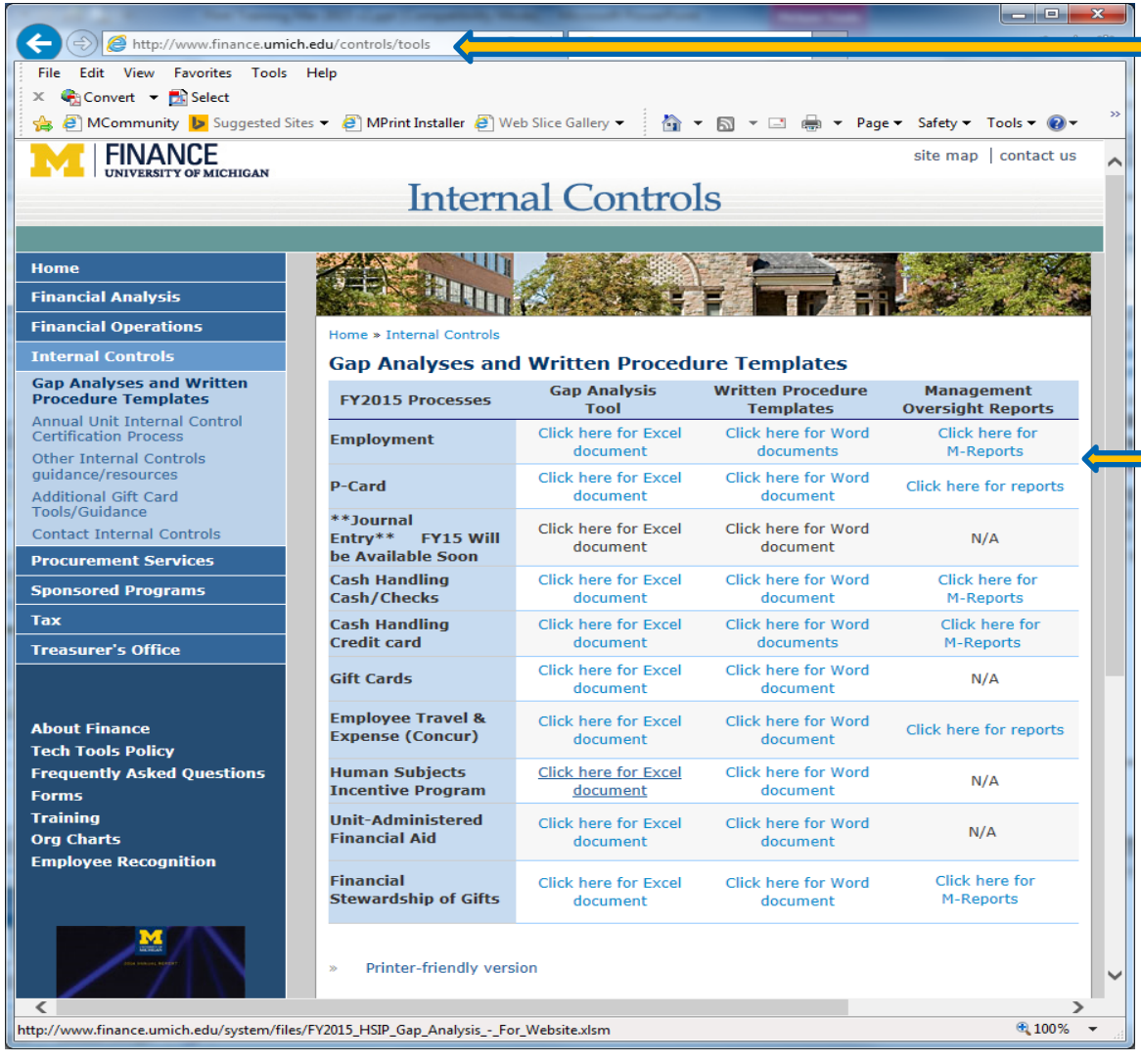
- Internal Controls Gap Analysis
- Written Procedure Documentation
- **Management Oversight Reporting**
- Department Sub-Certification

# 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.)



# 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**

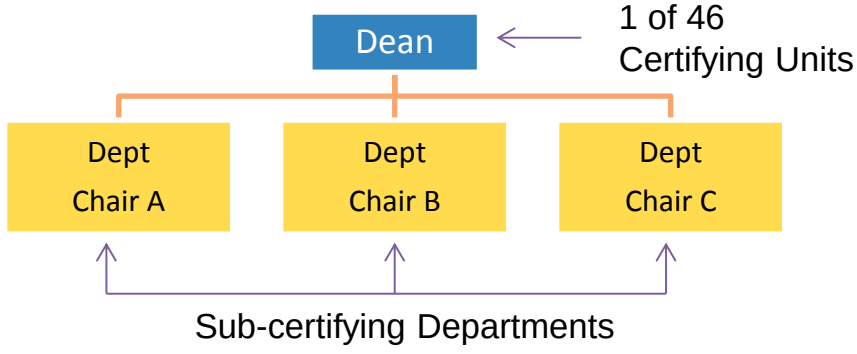
- Either complete via a **hard copy or on-line** in MReports
- Does not replace official unit hard-copy certification form to be signed by Deans/VPs/Directors and submitted to the Office of Internal Controls.

# What is Department Sub-Certification?

- Certification/Attestation Categories
  1. Stewardship
  2. Financial Results
  3. Internal Controls / Risk Management

Examples

- Conflict of Interest
- IT Security
- "Red Flags" Identify Theft



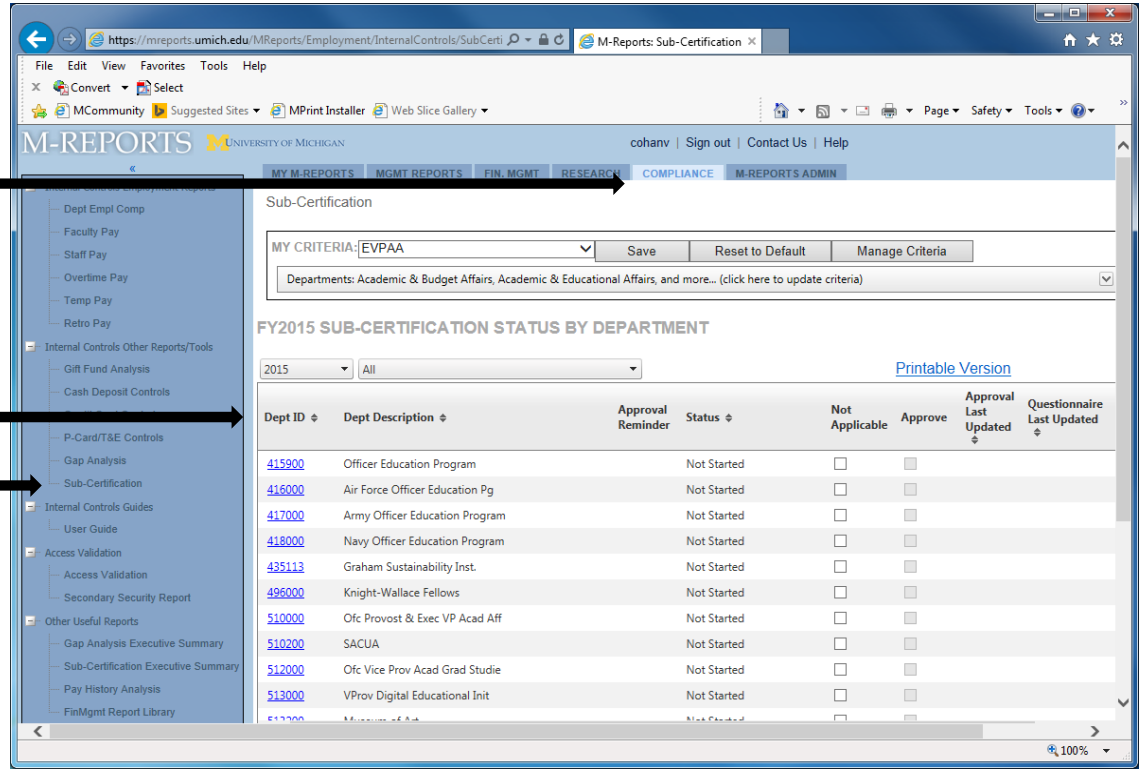
# How to perform Department Sub-Certification

- 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**

**Compliance Tab**

**Choose Dept ID**

**Sub-Cert**



# 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/