The Annual Internal Controls 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
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
  - Are 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>
</tr>
<tr>
<td>Signed Unit Certification Forms due</td>
<td>End Sept</td>
</tr>
<tr>
<td>Present Unit Certification Results to Regents</td>
<td>November</td>
</tr>
</tbody>
</table>
FY 2020 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 2020 Unit Certification Results

"Yes" Responses – Employment Process*

*Employment was the only gap analysis process in scope for FY 2020. Other processes included in alternating year approach:
- PCard
- Cash Handling
- Journal Entries
- Capital Equipment
- Financial Stewardship of Gifts
- Human Subject Incentive Program


“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 (Cash/Credit Card)
  - Gifts
  - Gift Cards
  - Employee Travel & Expense (Concur)
  - Human Subject Incentive Payments (HSIP)
  - Unit Administered Financial Aid
  - Capital Equipment

- 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
## Alternating-Year Gap Analysis Approach

<table>
<thead>
<tr>
<th>Gap Analysis Process</th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Annually - higher risk / significant materiality</td>
</tr>
<tr>
<td>Concur</td>
<td>X</td>
<td></td>
<td></td>
<td>Alternate Concur &amp; P-Card</td>
</tr>
<tr>
<td>P-Card</td>
<td></td>
<td></td>
<td></td>
<td>Delete for FY21 (activity down 75%)</td>
</tr>
<tr>
<td>Cash / Checks</td>
<td></td>
<td></td>
<td></td>
<td>Alternate Cash/Checks &amp; Credit Card</td>
</tr>
<tr>
<td>Credit Card</td>
<td></td>
<td></td>
<td>X</td>
<td>Alternate Cash/Checks &amp; Credit Card</td>
</tr>
<tr>
<td>Gift Cards</td>
<td></td>
<td></td>
<td></td>
<td>Delete for FY21 (activity down 80%)</td>
</tr>
<tr>
<td>Journal Entry</td>
<td>X</td>
<td></td>
<td></td>
<td>Alternate Gift Cards &amp; JE (lower risk processes)</td>
</tr>
<tr>
<td>Financial Aid</td>
<td></td>
<td></td>
<td>X</td>
<td>Alternate Every Other Year</td>
</tr>
<tr>
<td>HSIP</td>
<td>X</td>
<td></td>
<td></td>
<td>Alternate Every Other Year</td>
</tr>
<tr>
<td>Stewardship of Gifts</td>
<td>X</td>
<td></td>
<td></td>
<td>Alternate Every Other Year</td>
</tr>
<tr>
<td>Capital Equipment</td>
<td>X</td>
<td></td>
<td>X</td>
<td>Alternate Every Other Year (after 2020)</td>
</tr>
</tbody>
</table>

**Notes:**
- The gap analysis guidance for all processes will be updated and available on the Internal Controls Website each year as reference, even if not required as part of the Annual Unit Internal Controls Certification.
- Units are still expected to have proper controls in place for all processes, even if not part of Annual Unit Internal Controls Certification.
# 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; Expenses (Concur)</th>
<th>Human Subject Incentive Payments (HSIP)</th>
<th>Unit Administered Financial Aid</th>
<th>Capital Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department 1</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
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<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Department 2</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
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<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Department 3</td>
<td>✔️</td>
<td>✔️</td>
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</tr>
<tr>
<td>Department 4</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
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<tr>
<td>Department 5</td>
<td>✔️</td>
<td>✔️</td>
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<tr>
<td>Department 6</td>
<td>✔️</td>
<td>✔️</td>
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</tr>
<tr>
<td>Department 7</td>
<td>✔️</td>
<td>✔️</td>
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<td></td>
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</tr>
<tr>
<td>Department 8</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Department 9</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
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<tr>
<td>Department 10</td>
<td>✔️</td>
<td>✔️</td>
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</tr>
</tbody>
</table>

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

**University of Michigan (Directional)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employment</strong></td>
<td>Process over <strong>$4.4 billion</strong> in employee compensation annually</td>
</tr>
<tr>
<td><strong>P-Card</strong></td>
<td>Approximately <strong>6,000</strong> P-Card holders with open cards across campus</td>
</tr>
<tr>
<td><strong>Journal Entries</strong></td>
<td>Process approximately <strong>100,000</strong> journal entries annually</td>
</tr>
<tr>
<td><strong>Cash Handling</strong></td>
<td>Processing over <strong>30,000</strong> departmental deposits, totaling over <strong>$500 million</strong> annually</td>
</tr>
<tr>
<td><strong>Gifts</strong></td>
<td>Approximately <strong>$400 million</strong> in gift fund balance</td>
</tr>
<tr>
<td></td>
<td>Approximately <strong>$320 million</strong> in gift expenses annually (does not include transfers)</td>
</tr>
<tr>
<td><strong>Credit Cards</strong></td>
<td>Over <strong>500</strong> Credit Card Merchants</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 PCard 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>Unit has process to determine who is authorized to possess a PCard (may establish local guidelines for PCard holder criteria stricter than university guidelines).</td>
<td>N</td>
<td>Process does not exist for who is authorized to possess a PCard</td>
<td>John Doe will document procedures, identify key activities, roles, and responsibilities related to the possession of a PCard</td>
<td>3/5/2019</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 PCard 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](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

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<table>
<thead>
<tr>
<th>Activity</th>
<th>Responsibility</th>
<th>Reference/Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PCard Procurement Overview</strong></td>
<td>The objective of the PCard management process is to ensure the use of the PCard is consistent with university as well as local procurement guidelines</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PCard Procurement</th>
<th>Activity</th>
<th>Responsibility</th>
<th>Reference/Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KEY ROLES</strong></td>
<td>Below is the criteria or supporting rationale for someone within the [insert name of school/college/unit/department] to be a PCard holder, as determined by [insert appropriate person/position]:</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TRAINING</strong></td>
<td>On-line training must be completed before a card is ordered for new card holders</td>
<td>PCard Applicant</td>
<td>See <a href="http://procurement.umich.edu/card-programs/purchasing-card-pcard/application-training">http://procurement.umich.edu/card-programs/purchasing-card-pcard/application-training</a> for PCard training.</td>
</tr>
<tr>
<td><strong>PCARD APPLICATION</strong></td>
<td>Complete the online PCard Application. The application process includes acceptance of the PCard Cardholder Agreement as well as attesting to completing PCard training</td>
<td>PCard Applicant Administrator</td>
<td>Applying for a PCard is an online process which can be found at <a href="http://procurement.umich.edu/card-programs/purchasing-card-pcard/application-training">http://procurement.umich.edu/card-programs/purchasing-card-pcard/application-training</a>.</td>
</tr>
<tr>
<td></td>
<td>As part of the on-line process, the applicant must select the appropriate individual to approve the request in the unit.</td>
<td>PCard Applicant</td>
<td>The application is routed to the individual selected for unit approval.</td>
</tr>
</tbody>
</table>
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>P-Card</td>
<td>Are overtime, temp and retro pay reasonable?</td>
</tr>
<tr>
<td>Cash Handling</td>
<td>Are P-Card holders appropriate?</td>
</tr>
<tr>
<td>Concur</td>
<td>Are credit limits appropriate compared to spend levels?</td>
</tr>
<tr>
<td>Gifts</td>
<td>Have proper individuals taken cash handling training?</td>
</tr>
<tr>
<td></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 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
    - Information Assurance
    - “Red Flags” Identify Theft

Examples

![Diagram showing the structure of sub-certifying departments with the dean at the top and three department chairs (Chair A, Chair B, Chair C) below. Each chair is connected to the next level with arrows pointing upwards. The diagram indicates that there are 1 of 46 certifying units.](image-url)
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](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/controls/contact)
  - Brent Haase, Internal Controls Manager: (734)763-0260 or [haasebr@umich.edu](mailto:haasebr@umich.edu)
  - Kay Bressler, Internal Controls Data Analyst: (734)763-4359 or [bressler@umich.edu](mailto:bressler@umich.edu)
  - Cory Belote, Internal Controls Coordinator: (734)615-0121 or [ctremp@umich.edu](mailto:ctremp@umich.edu)

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

- Compliance Resource Center: [https://ogc.umich.edu/compliance-resource-center/](https://ogc.umich.edu/compliance-resource-center/)

- Compliance Hotline: [https://compliance.umich.edu/report-a-concern/](https://compliance.umich.edu/report-a-concern/)