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ADVISORY NETWORK



Internal Control Environment in Sponsored Programs



LARRY HANKINS
CONTRACTS & GRANTS ACCOUNTING

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INTERNAL CONTROLS?

INTERNAL CONTROL COMPRISES THE PLAN OF ORGANIZATION AND ALL OF THE COORDINATE METHODS ADOPTED WITHIN A BUSINESS TO SAFEGUARD ITS ASSETS, CHECK THE ACCURACY AND RELIABILITY OF ITS ACCOUNTING DATA, PROMOTE OPERATIONAL EFFICIENCY, AND ENCOURAGE ADHERENCE TO PRESCRIBED MANAGERIAL POLICIES.

Source: AU Internal Audit

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INTERNAL CONTROL OBJECTIVES?

- 1) TO PROTECT THE UNIVERSITY'S ASSETS,
- 2) TO ENSURE RECORDS ARE ACCURATE,
- 3) TO PROMOTE OPERATIONAL EFFICIENCY,
- 4) TO ENCOURAGE ADHERENCE TO POLICIES AND PROCEDURES,
- 5) TO ACCOMPLISH GOAL & OBJECTIVES.

Source: AU Internal Audit

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KEY COMPONENTS OF INTERNAL CONTROL SYSTEM

- 1) CONTROL ENVIRONMENT,
- 2) RISK ASSESSMENT,
- 3) CONTROL ACTIVITIES,
- 4) INFORMATION AND COMMUNICATION, AND
- 5) MONITORING.

Source: Integrated Framework Executive Summary - Committee of Sponsoring Organizations of the Treadway Commission (COSO)

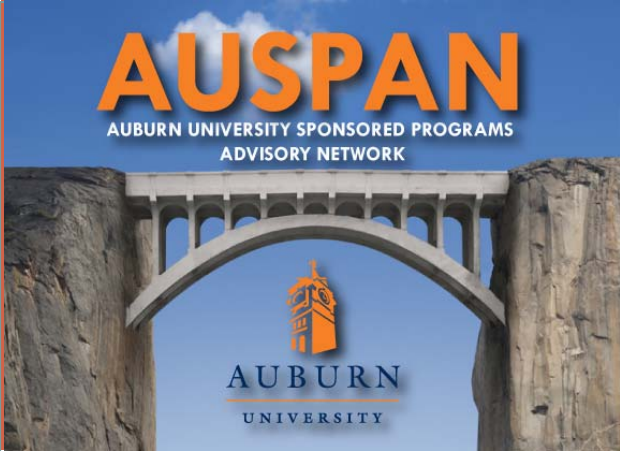
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THE CONTROL ENVIRONMENT

ORGANIZATIONAL CULTURE FIRST LINE OF DEFENSE

- Tone at the top
- Competency
- Proper authority
- Empowerment

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RISK ASSESSMENT

WHAT ARE IMPACTS TO GOALS AND OBJECTIVES?

TYPES OF RISK

- Financial
- Human Resources
- Research Misconduct
- Intellectual Property/Export Control
- Operational
- Reputation

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CONTROL ACTIVITIES

BEHAVIORS SUPPORTED BY POLICIES PROCEDURES

TYPES OF CONTROL ACTIVITIES

- PREVENTATIVE
 - Approvals
 - Documentation
 - Proper authorizations
- DETECTIVE
 - Reviews
 - Reconciliations

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INFORMATION AND COMMUNICATION

INFORMATION MUST BE IDENTIFIED, CAPTURED AND COMMUNICATED IN A FORM AND TIMEFRAME THAT ENABLES PEOPLE TO CARRY OUT THEIR RESPONSIBILITIES.*

- Information system reports
- Internal information
- External information

* COSO - Integrated Framework Executive Summary

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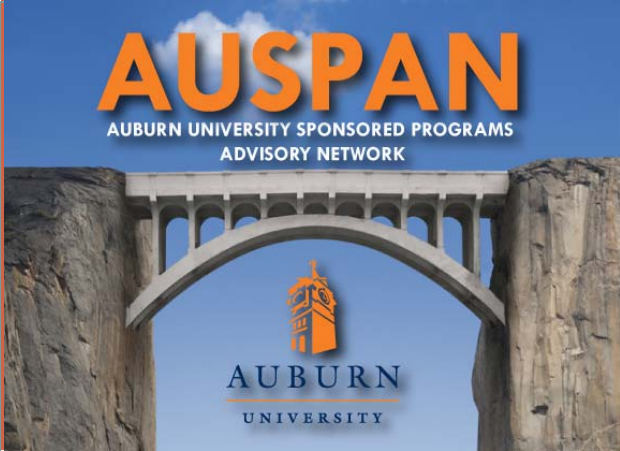
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MONITORING

A PROCESS THAT ASSESSES THE SYSTEM'S PERFORMANCE
OVER TIME.*

- Ongoing monitoring
- Separate evaluations
- Reporting deficiencies

* COSO - Integrated Framework Executive Summary



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WHO IS RESPONSIBLE?

EVERYONE!!

- PRESIDENT
- PROVOST & ASSOCIATE PROVOSTS
- DEANS, DEPARTMENT HEADS
- FACULTY, PRINCIPAL INVESTIGATORS
- ADMINISTRATORS & STAFF
- STUDENTS

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LIMITATIONS:

GOOD CONTROLS CANNOT GUARANTEE SUCCESS

- POOR DECISION-MAKING
- POOR MANAGERS
- UNETHICAL BEHAVIOR
- INADEQUATE KNOWLEDGE
- CONTROL OVERRIDE

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KEY COMPONENTS OF INTERNAL CONTROL SYSTEM?

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WHY DO WE CARE?

OMB CIRCULAR A-110, UNIFORM ADMINISTRATIVE REQUIREMENTS
SECTION 21

OMB CIRCULAR A-133, AUDITS OF STATES, LOCAL GOVERNMENTS
AND NON-PROFITS
PART 6

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Section 21.b. Federal reporting agencies *shall require* recipients to have:

- Effective *control* over and *accountability* for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.
- Written *procedures* for determining the *reasonableness, allocability* and *allowability* of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.
- Accounting records including cost accounting records that are supported by source *documentation*.

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Part 6 – Internal Controls:

OMB Circular A-133 requires auditors to **obtain an understanding** of the non-Federal entity's internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned.

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Part 6 – Internal Controls:

Transactions are properly recorded and accounted for to:

- Permit the preparation of reliable financial statements and Federal reports.
- Maintain accountability over assets.
- Demonstrate compliance with laws, regulations, and other compliance requirements.

Transactions are executed in compliance with:

- Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program.

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OMB CIRCULAR A-133: AUDIT OF FEDERAL AWARDS

COSO MATRIX:

- Allowable Costs
- Cash Management
- Cost Sharing
- Period of Availability
- Program Income
- Reporting



Control Environment
Risk assessment
Control Activities
Information & Communication
Monitoring

CONTROL NARRATIVES

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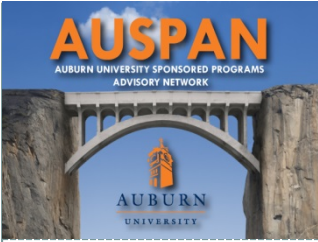


OMB CIRCULAR A-133: AUDIT OF FEDERAL AWARDS

Examples:

- What procedures prevent/detect unallowable costs?
- Is a client review performed?
- How do you detect or prevent unallowable cost transfers?
- Subrecipient review?
- What procedures are in place to ensure that all obligations are incurred within the funding period?
- What controls are in place to ensure timely reporting?
- What controls are in place to ensure cost sharing commitments and effort commitments are met?

FRAUD INTERVIEW



QUESTIONS?



Contact Information

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