

Statement of Auditing Standards 112

*Communicating Internal Control
Related Matters Identified in an Audit*

What is SAS 112?

- Establishes standards for communicating internal control issues affecting:
 - Integrity of financial reporting
 - Compliance with applicable laws and regulations
- Establishes standards for classifying control issues:
 - control deficiency (bad)
 - significant deficiency (worse)
 - material weakness (worst)

SAS 112-Background

- Objective is to ensure internal control concerns are communicated to Management
- Issued by the American Institute of Certified Public Accountants (AICPA)
- SAS112 is specific to non-profit organizations (our version of SOX)
- Government Audit Standards have incorporated SAS112

SAS 112

Control Issue Defined: Control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis.

Examples:

- Untimely cash deposits
- Incomplete and/or untimely account reconciliations
- Untimely and/or insufficiently documented cost transfers
- Lack of evidence of reconciliation and review of departmental expenditures (sponsored and non-sponsored funds)

SAS112-Dept Key Controls

- Departmental Controls-Sponsored Programs:
<http://accounting.ucr.edu/documents/sas112dca133.doc>
- Departmental Controls-Financial (General):
<http://accounting.ucr.edu/documents/sas112dcgen.doc>

SAS 112

Impact of SAS 112 on UCR

- Due to significant changes in the valuation of control exceptions and more stringent audit standards, UCR is more likely to encounter control issues being identified and reported

SAS 112

Potential Impact of a Control Deficiency and/or Material Weakness Disclosure

- Reputation jeopardized
- Increased audits
- Disallowances, fines and penalties
- Loss of current and future sponsored project funding
- Reduced campus resources

What does SAS 112 Mean to You?

- Generally, internal controls at UCR are in order and adequate. However the following functions deserve continuous review:
 - Ledger reconciliations
 - Certified effort reports
 - Cost transfers
 - Award close out
 - Budget variance analysis
 - Cash handling
 - Expense and Revenue monitoring
 - Payroll processing and Timekeeping
 - Fiscal year end processes

SAS 112

- Formal documentation of internal controls
- Documenting and retaining evidence of internal controls performed
- Examples;
 - Document method of allocating costs among multiple awards
 - Preparer signs & dates AND reviewer signs & dates

OMB Circular A-133

Audits of States, Local
Governments, and Non-Profit
Organizations

A-133 Audit

- OMB Circular A-133 sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards.
- Also referred to as the Single Audit Act
- All federal contract and grant awards are subject to A-133 Audits

A-133 Audit

- University of California receives an A-133 audit annually in conjunction with annual financial audit
- UCR is included in UC's A-133 audit
- The UC A-133 Audit is posted at <http://www.ucop.edu/costingpolicy/a133auditinfo.html>
- Results posted to the Federal Audit Clearinghouse

A-133 Audit

- UC 2006 Financial Statement Disclosure

Part II: FINANCIAL STATEMENTS <i>(To be completed by auditor)</i>			
1. Type of audit report			
Mark either:	<input checked="" type="checkbox"/> Unqualified opinion	OR	
any combination of:	Qualified opinion	Adverse opinion	Disclaimer of opinion
2. Is a "going concern" explanatory paragraph included in the audit report?			
Yes	<input type="radio"/> No		
3. Is a reportable condition disclosed?			
Yes	<input type="radio"/> No - SKIP to Item 5		
4. Is any reportable condition reported as a material weakness?			
Yes	No		
5. Is a material noncompliance disclosed?			
Yes	<input type="radio"/> No		

Award Audit and Review

- Undesirable Financial Disclosure

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Mark either:	<input checked="" type="checkbox"/> Unqualified opinion OR
any combination of:	Qualified opinion Adverse opinion Disclaimer of opinion
2. Is a "going concern" explanatory paragraph included in the audit report?	
<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
3. Is a reportable condition disclosed?	
<input checked="" type="checkbox"/> Yes	No - SKIP to Item 5
4. Is any reportable condition reported as a material weakness?	
<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
5. Is a material noncompliance disclosed?	
<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Other Audits

Specific Award Audits/Reviews

- All individual awards are subject to Agency audit and review upon notice
- If contacted by Agency notify EMF Accounting immediately
- The Controller, AVC Financial Services, is the point of contact on all external audits

OIG Audit Plans

- Each federal agency, through its Office of the Inspector General (OIG) publishes annual audit plans
- The plans generally indicate areas of emphasis and interest for the agency
 - Certain themes and concerns are often shared between the agencies

OIG - Areas of Focus

- NSF OIG
 - Thematic focus
 - Taxpayer investment
 - Financial & programmatic accountability
 - Salaries and wages claimed by universities
 - Effort reporting at major universities
 - Audit of select awards to universities
 - Focusing on grantee systems to safeguard and account for NSF funds
 - Desk reviews of grantee A-133 audit reports

OIG - Areas of Focus

- HHS - OIG
 - Grantee management of conflicts of interest
 - Review the nature of reported interests in FY 06 and how institutions managed the conflicts
 - Review how NIH managed grantee compliance
 - University administrative & clerical salaries
 - Review will encompass grants, cooperative agreements and contracts at selected universities
 - Colleges' and Universities' compliance with cost principles
 - Reviews will be conducted at selected institutions

UCR - Areas of Concern

- Effort reporting
 - Incomplete / missing, late
- Cost transfers
 - High volume, timeliness & documentation
- Subrecipient monitoring
- Cost sharing
 - Compliance with cost principles & reporting
- Award close-out
 - Delinquent financial and technical reports

Addressing the Concerns

- **Training**
 - Expanding campus sponsored programs training program
- **Roles and responsibilities document**
 - Effective information & training tool
 - Mitigating factor for fines & penalties
- **Electronic tools**
 - Implement new on-line effort reporting
 - Including cost sharing component
 - Ledger reconciliation and review system