



Item: AF: I-4

## AUDIT AND FINANCE COMMITTEE

Wednesday, October 20, 2010

**SUBJECT: DISCUSSION ON PROPOSAL FOR MANAGERS' CERTIFICATIONS OF INTERNAL CONTROLS.**

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### PROPOSED COMMITTEE ACTION

Information Only.

### BACKGROUND INFORMATION

In an effort to strengthen the University's internal control environment and in support of the annual certification by senior management to the Florida Auditor General, the Office of Inspector General has recommended annual sub-certifications of internal controls by managers of major fiscal functions and activities. Best practices recommended by the National Association of College and University Business Officers (NACUBO) in its 2003 advisory report included consideration for implementing such certifications.

### IMPLEMENTATION PLAN/DATE

January 2011.

### FISCAL IMPLICATIONS

Not Applicable.

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**Supporting Documentation:** Statement of Proposal for Sub-certifications of Internal Controls.

**Presented by:** Mr. Morley Barnett, Inspector General

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## *Proposal for Enhancing Management's Certification of Internal Controls*

### Background

- Management is responsible for the system of internal controls consisting of plans aimed at:
  1. Providing operational efficiency and effectiveness;
  2. Providing reliable financial information;
  3. Safeguarding assets and records;
  4. Encouraging adherence to established policies and procedures; and,
  5. Compliance with applicable laws, rules, and regulations.
- Everyone within the University has some role in internal controls.
- The president and senior vice president for financial affairs are required to annually sign a representation letter for the external auditors (Florida Auditor General) confirming the integrity of the University's financial statements, adequacy of disclosures, compliance with applicable laws, rules, regulations and provisions of contracts and grants, any knowledge of fraud, among other items that are affected by FAU's operations and internal control environment.
- In 2003, the National Association of College and University Business Officers (NACUBO) published certain best practices as a result of passage of the Sarbanes-Oxley Act of 2002, (SOX). Among other things, NACUBO recommended that "institutions that are decentralized should consider implementing sub-certification requirements from financial leaders responsible for the financial results of units, departments, or schools. The sub-certification provides assurance on the underlying numbers and controls."

### Goals and Benefits of Internal Control Sub-certifications.

In response to best practice recommendations by NACUBO, our office has recommended that the University would benefit from periodic reviews and sub-certifications of internal controls by responsible managers. We recognize that full SOX implementation is not cost efficient or practical, but we recognize that the sub-certifications add value to the internal control environment. The sub-certification process will benefit FAU by:

1. Supporting representations which senior management makes to the Florida Auditor General at the conclusion of the annual certified audit of the University's financial statements;
2. Providing a checklist for basic controls that should be in place;
3. Adding leverage to the efforts of the Office of Inspector General to cover operations which might not be the subject of a current audit or review;
4. Possibly reducing the number of future audit criticisms; and,
5. Increasing credibility with external organizations, including research sponsors.

### What other Florida Public Universities are Doing on Sub-certifications

No other institution has a sub-certification process in place. The University of South Florida does require its vice presidents to sign a sub-certification statement for the Auditor General's federal (A-133) and financial statements audits. The certification basically parallels the representation letter signed by the president and chief financial officer.

### Where we are in Developing the Sub-certifications

Our office has drafted internal control sub-certifications for functions and activities that have a major impact on the University's operations. Although each function/activity subject to certification is distinct, there are common elements which should be included for each area. Those elements are based on the fundamentals of proper internal controls, such as adequate segregation of duties, supervisory review and approval of transactions, accuracy and retention of records, compliance with legal requirements and policies and procedures, and cross-training of employees.

### Going Forward

In January 2011, our office expects to finalize the sub-certification process with the SVP for Financial Affairs and we anticipate there will be an initial certification to establish a baseline for existing controls and, thereafter, annual sub-certifications for each fiscal year. We believe the certification process can be planned, managed, self-reported, and monitored by senior management.