

Role of The Controller

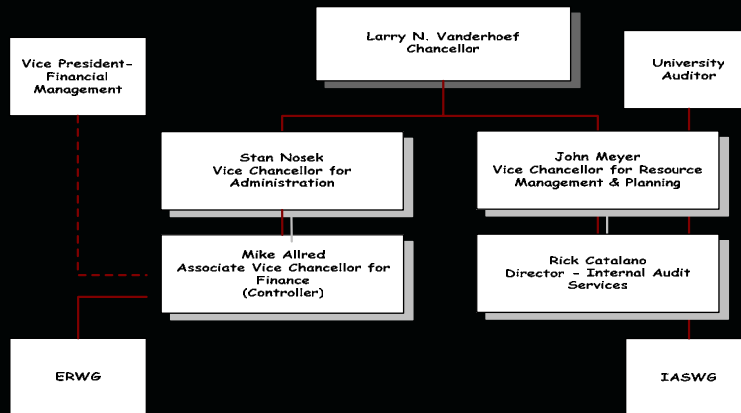
John Ellis
Associate Vice Chancellor
for Finance & Controller
UC-Berkeley

Who are The UC Controllers?

Berkeley—John Ellis
Davis—Mike Allred
Irvine—Rich Andrews
Los Angeles—Sue Abeles
Merced—Dottie Labbok
Riverside—Bobbi McCracken
San Diego—Don Larson
San Francisco—LaDene Diamond
Santa Barbara—Jim Corkill
Santa Cruz—Kirk Lew
ANR—Jake McGuire
LBNL—Jeffrey Fernandez
LLNL—Linda Rakow

Organizational Independence and Cooperation

Abbreviated Organization Chart



Distinct, Yet Complementary

Controller	Internal Audit
♦ Ownership of systems of accountability and control	♦ Independent evaluation of systems of accountability and control
♦ Provide leadership to management in recognizing control responsibilities and understanding control and risk	♦ Provide a resource to management in helping assess their control environment and the effectiveness and efficiency of operations
♦ Ensure improvement initiatives receive management support and provide accountability for progress, with reporting to stakeholders	♦ Evaluate effectiveness of improvement initiatives and communicate results to stakeholders

Roles & Responsibilities of UC Controllers



- Established by the UC Controls Initiative
 - Provide leadership and direction for implementation of the initiative across the campus
 - Responsible for the quality of controls in areas directly reporting to them
 - Assist other campus management in their responsibilities to ensure appropriate controls for other campus operations
- Develop and implement campus wide system of internal control
- Establish, evaluate and support control environment
- Provide financial leadership focus for campus operations

UC Accounting Program

- UC maintains and operates a comprehensive accounting program in order to:
 - Meet its stewardship responsibilities
 - Provide management information to all levels of the University's administration, State and Federal officials



UC Accounting Program

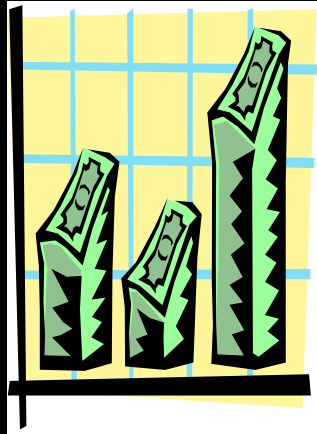
- The University has a special stewardship obligation to:
 - Properly and accurately process all receipts and disbursements of funds
 - Account for all financial resources received and used
 - Ensure that all financial transactions conform to legal requirements and administrative policies, and are recorded in accordance with GAAP
 - Provide reports that present a complete picture of the University's funds and their uses

UC Accounting Program

- The University's comprehensive accounting program must provide financial information to all levels of University administration for:
 - Use in planning and budgeting
 - Evaluating the uses of funds
 - Making comparative studies



UC Average Daily Expenditures



UCLA	\$ 12,048,350
UCSF	8,279,281
UCD	7,842,581
UCSD	6,918,873
UCB	5,396,254
UCI	4,840,127
UCSB	2,053,173
UCR	1,447,796
UCSC	1,441,181
UCM	129,754
UCOP	1,404,169
DOE Labs	15,815,681
Total	\$ 67,617,220

Source 2004-05 Campus Financial Schedules (current funds only)

Reporting Results to Stakeholders

- Are we doing a good job?
 - Annual Audit Report from UC's External Auditor (PwC)
 - Required communications to the Regent's committee on audit
 - Letter of comments & recommendations to the Regents
 - Letter of comments & recommendations to the Chancellor
 - Reports to the Board of Regents from Internal Audit
 - Audits published by agencies that sponsor UC activities
 - HHS-OIG, NSF-OIG



Does anyone care about University Accounting?

As Universities Get Billions in Grants, Some See Abuses

Cornell Doctor Blows Whistle Over Use of Federal Funds, Alleging Phantom Studies Defending a Star Professor
By **BERNARD WYSOCKI JR.**
Staff Reporter of *THE WALL STREET JOURNAL*
August 16, 2005; Page A1

House Panel Urges Probe Of Use of NIH Grants

By **BERNARD WYSOCKI JR.**
Staff Reporter of *THE WALL STREET JOURNAL*
September 22, 2005; Page A4

Timeline of Accounting and Investment Regulation

- 1914 Federal Reserve created as the nation's first bank
- 1923 GM adopts major accounting techniques used by other big businesses
 - ROI, ROE, Flexible Budgeting
- 1929 Stock Market Crash
- 1933/34 Passage of Securities Acts
 - Creation of SEC
 - SEC reporting requirements (10Q and 10K)
- 1936-38 The Committee on Accounting Procedure (CAP) was created
 - GAAP used for the first time
- 1953 CAP issued first GAAP codification



Timeline of Accounting and Investment Regulation

- 1959 Accounting Principles Board (APB) was formed to replace CAP
- 1973 The Financial Accounting Standards Board (FASB) was formed to replace APB
- 1984 The Governmental Accounting Standards Board was organized by the FAF
- 2002 Passage of the Sarbanes-Oxley Act



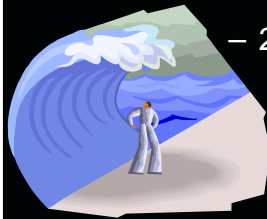
Sarbanes-Oxley Act of 2002

- Passed by Congress to help restore investor confidence in the financial markets in the wake of Enron, Tyco, Global Crossing, WorldCom, HealthSouth, etc.
 - Created a new accounting oversight board to police the practices of the accounting profession
 - Strengthened auditor independence rules
 - Increased the accountability of corporate officers and directors
 - Improved disclosure and financial reporting



Influence of Sarbanes-Oxley Act on UC

- PwC Report to the Regents 2002-03
 - Recommendation by PwC to implement build-up certifications to support campus representation letter process
- Implementation
 - 2003-04
 - Research, Student Financial Aid, Development (Pledges)
 - 2004-05
 - Fiscal-Year-End Certification Letter
 - Signed by all Deans, Vice Chancellors and Vice Provosts
 - 22 Signatories at UCD for 2004-05



Influence of Sarbanes-Oxley Act on UC

FYE Certification Letter

- Representations made by signatory to Controller:
 1. Responsible for the applications of University P&P
 2. Responsible for establishing & maintaining an effective system of internal control
 3. No material transactions, accounts or agreements, that have not been properly recorded in campus accounting records
 4. Communications from regulatory agencies, donors, or other entities concerning noncompliance...have been disclosed in writing
 5. All known allegations of fraud or suspected fraud have been disclosed



UC Statement of Ethical Values

- We are committed to:
 - *Integrity*
 - We will conduct ourselves with integrity in our dealings with and on behalf of the University
 - *Excellence*
 - We will conscientiously strive for excellence in our work
 - *Accountability*
 - We will be accountable as individuals and as members of this community for our ethical conduct and for compliance with applicable laws and University policies and directives
 - *Respect*
 - We will respect the rights and dignity of others

UC Standards of Ethical Conduct

1. Fair Dealing
 - *...No unlawful practice or a practice at odds with these standards can be justified on the basis of customary practice, expediency, or achieving a "higher" purpose.*

UC Standards of Business Conduct

6. Ethical Conduct of Research

All those engaged in research are expected to pursue the advancement of knowledge while meeting the highest standards of honesty, accuracy, and objectivity. They are also expected to demonstrate accountability for sponsors' funds and to comply with specific terms and conditions of contracts and grants.

Research Noncompliance in Higher Education

Cost of Not Doing the Right Thing

• Florida International University (2005)	\$13.2M
• University of Alabama (2005)	3.4M
• Mayo Foundation (2005)	6.5M
• University of Pennsylvania Children's National Medical Center (2005)	1.3M
• East Carolina University (2004)	2.3M
• Harvard/Beth Israel Deaconess Medical Center (2004)	3.3M
• Johns Hopkins University (2004)	2.6M
• Northwestern University (2003)	5.5M
• Thomas Jefferson University (2000)	2.6M
• University of Pittsburg (1999)	15.5M
	<u>\$56.2M</u>

Research Noncompliance in Higher Education

Allegations Made Against the Institutions

- Lack of accounting integrity
- Unallowable costs
- Improper use of animals
- Conflicts of Interest
- Cost Transfers – Incorrect Accounts
- Improper Salary Expenses
- Duplicate Billings
- Inaccurate Effort Reporting
- Ineligible researchers
- Over-recovery of F&A costs
- Improper treatment of human subjects
- False statements in reports to Federal Government
- Failures in Integrity of Research
- Over billing

UC Standards of Business Conduct

9. Internal Controls

All members of the University community are responsible for internal controls. Each business unit or department head is specifically responsible for ensuring that internal controls are established, properly documented and maintained for activities within their jurisdiction. Any individual entrusted with funds, including principal investigators, is responsible for ensuring that adequate internal controls exist over the use and accountability of such funds.

SAS 112

- Statement on Auditing Standards
 - Communicating Internal Control Related Matters Identified in an Audit has conformed the evaluation standards of control weaknesses of private companies and organizations with those of public companies subject to Sarbanes-Oxley and PCAOB audit standards.
 - Effective date for UC is July 1, 2006

SAS 112

- Under SAS 112, the standard for determining when a control issue is either a significant deficiency or a material weakness has been tightened considerably.
- Three categories of deficiencies:
 - Control deficiency
 - Significant deficiency
 - Material weakness

SAS 112

- System-wide meeting on October, 2006 to develop implementation plan
 - Each Campus, Lab & Medical Center to meet with PwC to agree on:
 - Inventory of key controls
 - Document and ensure key controls are in place
 - Known control issues

How will we meet these standards?

- By building strong relationships
 - Improve communication
 - Formal & informal
 - Teamwork
 - Include Deans, Dept. Chairs, Faculty
- This is not a one person job!



How will we meet these standards?

- A vision to stimulate initiatives
- Communication of business & infrastructure requirements
- Strategies to increase staff productivity
- A context for setting priorities



<http://uc2010.ucsd.edu/nbarch/index.htm>

New Tools, New Methods



- Enterprisewide Risk Work Groups
- Committee on Accountability and Controls
- Control Self-Assessment

Six Key Components



Let's Work Together!

