Role of
The Controller

M. Monir Ahmed
Assistant Vice Chancellor
for Business & Finance
UC Merced
Do you know who your campus controller is?

A. Unknown: He/She is a mystery to me.
   0

B. Aware: I know the name of the campus controller.
   0

C. Working relationship: I have partnered with my campus controller on solutions or improvements.
   0

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Who are The UC Controllers?

Berkeley—Delphine Regalia
Davis—Mike Allred
Irvine—Rich Andrews
Los Angeles—Allison Baird-James
Merced—M. Monir Ahmed
Riverside—Bobbi McCracken
San Diego—Don Larson
San Francisco—John Ellis
Santa Barbara—Jim Corkill
Santa Cruz—Kirk Lew
ANR—Jake McGuire
Organizational Independence and Cooperation

Abbreviated Organization Chart
UC Merced
Distinct, Yet Complementary

<table>
<thead>
<tr>
<th>Controller</th>
<th>Internal Audit</th>
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<tbody>
<tr>
<td>♦ Ownership of systems of accountability and control</td>
<td>♦ Independent evaluation of systems of accountability and control</td>
</tr>
<tr>
<td>♦ Provide leadership to management in recognizing control responsibilities</td>
<td>♦ Provide a resource to management in helping assess their control environment, and the effectiveness and efficiency of operations</td>
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<tr>
<td>and understanding control and risk</td>
<td></td>
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<tr>
<td>♦ Ensure improvement initiatives receive management support and provide</td>
<td>♦ Evaluate effectiveness of improvement initiatives, and communicate results to</td>
</tr>
<tr>
<td>accountability for progress, with reporting to stakeholders</td>
<td>stakeholders</td>
</tr>
</tbody>
</table>
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, and will 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, as well as State and Federal officials.
UC Accounting Program

- The University has a special stewardship obligation to:
  - Process properly and accurately all receipts and disbursements of funds
  - To account for all financial resources received and used
  - To ensure that all financial transactions conform to legal requirements and administrative policies, and are recorded in accordance with GAAP
  - To 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
How much money does the UC spend in a typical business day?

A. $19,898
B. $52,727
C. $80,221
D. $147,804
UC Average Daily Expenditures

Source: FY 11-12 Financial Schedules (current funds only)

<table>
<thead>
<tr>
<th>Institution</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>UCLA</td>
<td>$13,918,496</td>
</tr>
<tr>
<td>UCSF</td>
<td>10,260,970</td>
</tr>
<tr>
<td>UCD</td>
<td>8,977,238</td>
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<tr>
<td>UCSD</td>
<td>8,823,312</td>
</tr>
<tr>
<td>UCB</td>
<td>5,940,838</td>
</tr>
<tr>
<td>UCI</td>
<td>5,662,647</td>
</tr>
<tr>
<td>UCSB</td>
<td>2,336,575</td>
</tr>
<tr>
<td>UCR</td>
<td>1,751,041</td>
</tr>
<tr>
<td>UCSC</td>
<td>1,586,575</td>
</tr>
<tr>
<td>UCM</td>
<td>494,025</td>
</tr>
<tr>
<td>All Other</td>
<td>9,876,108</td>
</tr>
<tr>
<td>Total</td>
<td><strong>$69,627,824</strong></td>
</tr>
</tbody>
</table>
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?

Source: FY12-13 UC Budget
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
Who was the first Chairman of the Securities and Exchange Commission (SEC)?

A. Alan Greenspan  
B. Joseph Kennedy  
C. Joe Piscapo  
D. Herbert Hoover

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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
How many of you know what the first big financial scandal was?

1. Teapot Dome
   - 1
2. BCCI
   - 1
3. Enron
   - 1
4. Tulip Mania
   - 1
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...
  - 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
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
  6. Management of funds in compliance with laws, regulations, C&G agreements, and donor restrictions
Strengthen Our Culture

Stmt. Of Ethical Values

- Integrity
- Excellence
- Accountability
- Respect

Stds. Of Ethical Conduct

- Individual Responsibility & Accountability
- Compliance with Regulations & Policy
- Conflicts of Interest
- Internal Controls
- Financial Reporting

http://www.universityofcalifornia.edu/compliance/ethics/welcome.html
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.*
7. 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.
Noncompliance in Higher Education
Cost of Not Doing the Right Thing

- Ohio State University (2011) $22.5M
- Dartmouth College (2010) 275K
- Yale University (2008) 7.6M
- Cornell University Weill Med College (2007) 2.6M
- University of Connecticut (2006) 2.5M
- 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
Noncompliance in Higher Education
What’s At Risk

UC Extramural Funding, Fiscal Year 2011-12
Total = $5.4 billion

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>PHS</td>
<td>2,171,397,480</td>
</tr>
<tr>
<td>Other Federal</td>
<td>1,301,321,430</td>
</tr>
<tr>
<td>All Non-Federal</td>
<td>1,918,601,569</td>
</tr>
</tbody>
</table>
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
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.
• 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.
  – UC started the program in 2006
SAS 112/115

• Under SAS 112/115, 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
It Starts At The Top

- Senior Leadership
- ERM Committee
- Compliance Committee
- Audit Committee
- Ethics Committee
Six Key Components

- Enabling Technology
- People
- Business Portal
- Processes & Policies
- Financial Systems & Reporting
- Organizational Performance & Controls
Let’s Work Together!