

# Financial Internal Controls Initiative

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# Presentation Objectives:

- I. Understand the framework on which the Financial Internal Controls Initiative is based.
- II. Hear about what's happened over the last year.
- III. Learn about plans to move forward.
- IV. Understand what it means for you and why we all should care.

# What are Internal Controls?

*Internal Controls are an organizational framework -- supported by a body of processes, policies and procedures -- which an organization uses to:*

- *Accomplish its goals and objectives;*
- *Maintain compliance with laws and regulations;*
- *Ensure the reliability of financial information and data for effective decision-making; and*
- *Protect its resources, both tangible (e.g., equipment, property, funds) and intangible (e.g., reputation).*

# What is COSO?

- ❑ **Committee of Sponsoring Organizations (COSO)** of the Treadway Commission
- ❑ Organized as a result of the National Commission on Fraudulent Financial Reporting of 1988
- ❑ First chair was James C. Treadway, Jr., former Commissioner of the U.S. Security and Exchange Commission
- ❑ Dr. Larry Rittenberg, UW-Madison Emeritus Professor, served as chair for five years.
- ❑ Joint venture of five professional organizations:
  - American Accounting Association
  - American Institute of Certified Public Accountants
  - Financial Executives International
  - Association of Accountants and Financial Professionals in Business
  - Institute of Internal Auditors



# What is the COSO Integrated Framework?



The “COSO Cube” sets out:

- Definition of internal controls
- Categories of objectives
- Components and principles of internal controls
- Requirements for effectiveness

# Principles for Effective Internal Controls

## Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

## Risk Assessment

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

## Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

## Information & Communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

## Monitoring Activities

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies



# Risk Assessment

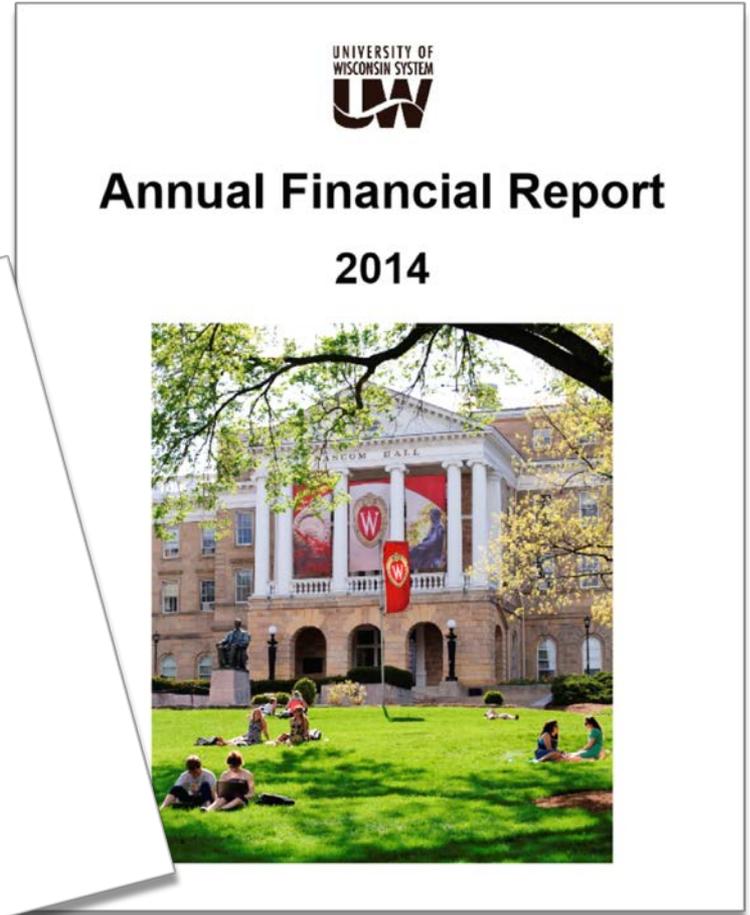
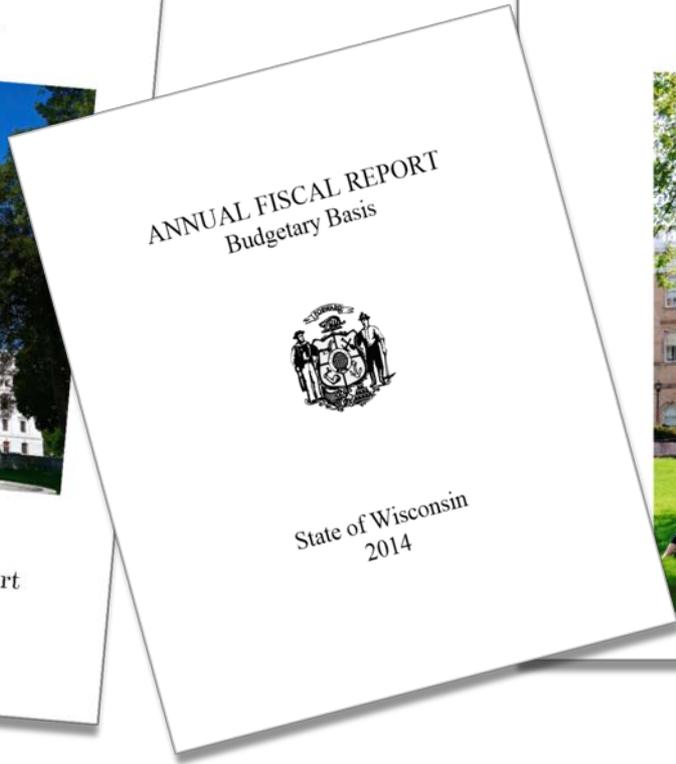
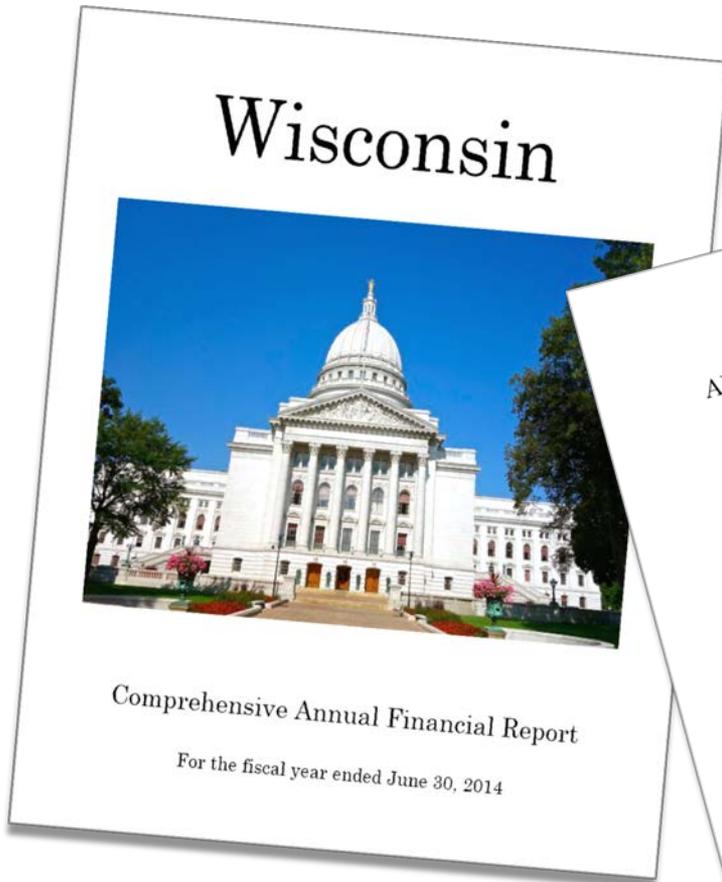
## PwC Engagement for Independent Review:

- Analyzed feedback from 2014 Financial Forum
- Interviewed key campus financial staff (38 interviews involving approximately 60 employees)
- Reviewed audit reports (LAB and Internal Audit)
- Reviewed financial data
- Separation of duty (SOD) scripts for SFS
- Developed risk matrices for financial processes
- Completed a risk assessment report

# Risk Assessment Outcomes

Campus Level	Process Level
<ul style="list-style-type: none"><li>• Comprehensive Financial Reporting Capabilities</li><li>• Campus Internal Control Plan</li><li>• Segregation of Duties (SOD) Guidance and Strategies</li></ul>	<ul style="list-style-type: none"><li>• Financial Information Management / Reporting</li><li>• Cash Handling</li><li>• Revenue</li><li>• Internal Billing</li><li>• Capital Equipment</li><li>• Inventories</li><li>• Procure to Pay</li><li>• Grants</li><li>• Gifts / Development</li><li>• Payroll System (HRS) Management</li><li>• Scholarship / Financial Aid / Tuition Remission</li><li>• Cost Transfers</li></ul>

# Financial Reporting...



# Statement of Net Position

University of Wisconsin System - Madison	6/30/2014	6/30/2013
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	637,588,369.84	746,789,525.10
Accounts Receivable, Net	199,602,770.19	194,253,595.05
Student Loans Receivable, Net	14,255,468.29	14,766,215.97
Capital Lease Receivable	281,877.82	662,539.58
Inventories	31,265,850.68	27,869,307.58
Prepaid Expense (including Deferred Charges)	43,322,798.54	36,280,410.66
Total Current Assets	<u>926,317,135.36</u>	<u>1,020,621,593.94</u>
Noncurrent Assets		
Endowment Investments	414,435,452.32	375,433,283.36
Student Loans Receivable, Net	79,287,822.12	77,197,166.17
Capital Lease Receivable	266,709.23	559,050.05
Land	80,077,990.07	80,077,990.07
Improvements Other Than Buildings, Net	109,826,081.15	109,141,566.29
Construction in Progress	140,000,056.10	455,299,438.05
Buildings, Net	2,232,928,028.86	1,877,423,135.19
Equipment, Net	180,855,747.73	191,809,354.96
Library Holdings	552,184,203.51	542,760,082.51
Total Noncurrent Assets	<u>3,789,862,091.09</u>	<u>3,709,701,066.65</u>
<b>TOTAL ASSETS</b>	<u>4,716,179,226.45</u>	<u>4,730,322,660.59</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized Loss on Debt Refunding	<u>10,825,356.98</u>	<u>8,866,863.49</u>



# Statement of Net Position cont'd

## LIABILITIES

### Current Liabilities

Accounts Payable and Accrued Liabilities	120,666,497.80	137,674,984.69
Notes and Bonds Payable	36,711,247.88	35,697,336.85
Capital Lease Obligations	3,664,889.48	3,942,759.80
Unearned Revenue	110,571,158.41	104,484,517.25
Compensated Absences	38,969,599.06	41,568,946.35
Deposits of Student Organizations	24,973.99	-
<b>Total Current Liabilities</b>	<b>310,608,366.62</b>	<b>323,368,544.94</b>

### Noncurrent Liabilities

Notes and Bonds Payable	802,132,004.96	848,088,354.54
Capital Lease Obligations	5,100,262.60	8,296,715.35
Compensated Absences	46,431,852.73	46,943,696.36
<b>Total Noncurrent Liabilities</b>	<b>853,664,120.29</b>	<b>903,328,766.25</b>
<b>TOTAL LIABILITIES</b>	<b>1,164,272,486.91</b>	<b>1,226,697,311.19</b>

## DEFERRED INFLOWS OF RESOURCES

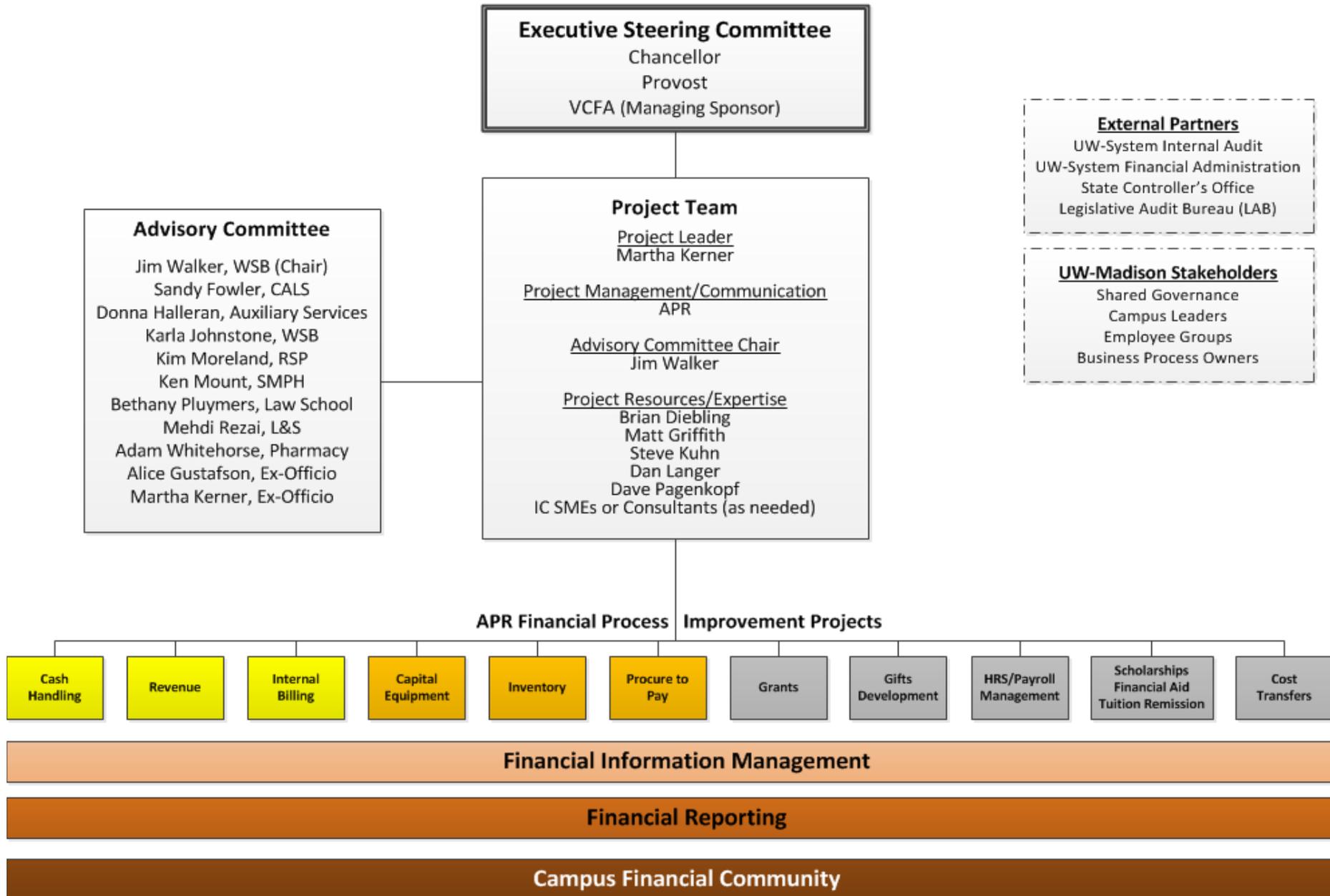
Unamortized Gain on Debt Refunding	200,367.26	-
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## NET POSITION

Net Investment in Capital Assets	2,448,263,702.50	2,360,486,400.53
Restricted for		
Nonexpendable	173,280,982.03	154,345,906.37
Expendable	220,554,162.59	194,549,929.17
Student Loans	115,495,473.73	113,638,235.37
Other	180,090,948.01	216,902,119.70
Unrestricted	424,846,460.40	472,569,621.75
<b>TOTAL NET POSITION</b>	<b>3,562,531,729.26</b>	<b>3,512,492,212.89</b>



# Financial Internal Controls Project Structure



# Roles

- ❑ **Executive Steering Committee** - Meet periodically with the project team to assess progress, make necessary decisions and provide overall direction.
- ❑ **Project Team** - Coordinate the work between the various entities serving the project.
  - **Project Leader** - Responsible for the leadership of the project, work products and deliverables.
  - **Project Management & Process Improvement** - provide overall project management for the initiative, as well as guidance and coaching to the process improvement teams.
  - **Advisory Committee Chair** - lead the advisory committee and advise the project leader.
  - **Project Resources/Expertise** - provide support to the project team and internal control expertise to the process improvement teams.
- ❑ **Advisory Committee** - Advise and make recommendations regarding strategic direction and key objectives.



# Project Management & Process Approach

- Administrative Process Redesign Office (APR) will provide overall project management for the initiative.
- APR will lead the process improvement projects using Lean Six Sigma (LSS) methodologies.
- Unlike traditional LSS projects, the objectives will be broader than efficiencies and cost savings.
- The process improvement projects will seek the most efficient, customer-centered solutions that meet the standards and objectives of internal controls.
- Each process will be designed or redesigned for optimal:
  - Internal controls elements
  - Staff capabilities
  - Organizational structure
  - Technology
  - Audit strength



# Process Teams Timeline

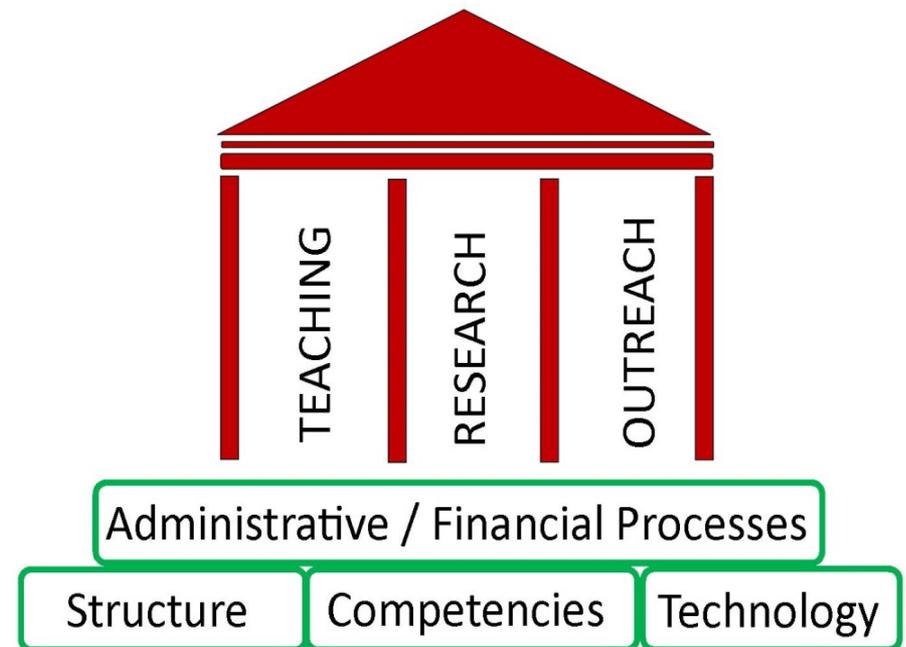
	2015																									
	April				May				June					July				August					September			
	6	13	20	27	4	11	18	25	1	8	15	22	29	6	13	20	27	3	10	17	24	31	7	14	21	28
<b>Financial Information Management &amp; Reporting</b>	Charter				Kickoff				Current State									Future state								
<b>Revenue</b>	Charter				Kickoff				Current State																	
<b>Cash</b>	Charter				Kickoff				Current State																	
<b>Internal Billing</b>					Charter									Kickoff				Current State								
<b>Procure to Pay</b>	Charter				Kickoff				Current State																	
<b>Inventory</b>					Charter									Kickoff				Current State								
<b>Capital Equipment</b>	Charter				Kickoff				Implementation																	

**ALL TEAM CURRENT STATE REVIEW**

# The Vision

**To be the most effective public university from a financial and administrative standpoint.**

UW-Madison's financial and administrative foundations must be built on sound business practices. The integrity and reliability of these processes should be such that campus leadership can focus resources on advancing the university's mission of teaching, research and outreach.



# Thank You

For more information, visit:

[bussvc.wisc.edu/internalcontrols](https://bussvc.wisc.edu/internalcontrols)

