



# Office of Internal Audit and Compliance

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## Briefing

Volume 1, Issue 3

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*“When internal audit is strong, its work will cause opportunity to float and risk to drown.”*

*-Dan Zitting, CPA, CISA*

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### Welcome

The purpose of the *Briefing* is to provide our colleagues at USG institutions and other stakeholders with substantive summaries of audit policy issues we have encountered concerning governance, risk management and internal control audits. While we will not focus on the institutions themselves, we will provide an overview of the related policy and the relevant details of our audit findings and related recommendations.

In this issue, we will focus on **operational internal control issues** in human resources, grant management and information technology. Our lead discussion article looks at the USG policy concerning requirements for employment background investigations as an auditable action item.

The USG Human Resource Department is under new leadership! Our new Vice Chancellor for Human Resources Marion Fedrick is revising the USG Human Resource Practice Manual and taking a look at all personnel policies to determine how to enhance employment services for USG employees. This is a significant task and requires extensive coordination of USG policies with employment law. We want to extend a special “*Thank You*” to Marion Fedrick for providing her thoughts for this article.

As HR undergo this process, the OIAC is supporting this effort through our focus on human resource audit issues. Our assistance includes helping institutions identify those policies that may become auditable issues and detailing how institutions may begin to synchronize their internal HR policies and practices with the USG Human Resources Practice Manual. Our review of the requirements for background investigations provides our readers with a head start on, at least, reviewing one policy central to sound employment practices.

As always, we enjoy hearing from you, and welcome any thoughts or feedback about this publication. *Thank you for reading.*

Sincerely,

John M. Fuchko, III, CIA, CCEP

Chief Audit Officer and Associate Vice Chancellor

## Employment Background Checks as an Auditable Issue

By Marion Fedrick

Vice Chancellor for Human Resources

### Employment Background Checks 101

*“Applicants for employment are required to undergo a background investigation to determine their eligibility for employment.”*



Security and Access

As Vice Chancellor for Human Resources, my role is to provide guidance to institution Chief Human Resource Officers and hiring departments on BOR human resource policies and compliance issues. The BOR Human Resource Department, along with my colleagues in the Legal Affairs Office, work with institutions to ensure background investigations are conducted and conform to policy.

#### ***What is the policy?***

The policy on employment background checks is found in the Human Resources Administrative Practice Manual employment section. Simply stated, beginning July 1, 2002, all candidates for employment with the University System of Georgia and USG institutions are subject to a background check as a condition of employment. The background check covers the following:

- A state and federal criminal history check covering a minimum of seven (7) years;
- A nationwide sex offender search;
- A social security number check;
- For all professional, faculty, and academic positions, an academic credentials check; and
- Credit check for employees who manage P-Card purchases.

A person who is offered employment in a “position of trust” may be hired conditionally pending the result of a more extensive state and federal criminal history investigation. Positions of trust may involve, but are not limited to, work with children, secure access to facilities, or access to financial resources, e.g., purchasing cards. Faculty members are also subject to the policies outlined in the Academic Affairs Handbook. Failure to disclose a criminal conviction and/or criminal history will disqualify a candidate for employment with USG.

#### **What constitutes grounds for adverse employment?**

Criminal conviction and adverse credit reporting would constitute grounds for ineligible employment with USG. Only criminal convictions and pending criminal cases may be considered when determining a candidate’s eligibility for a specific position or employment. Conviction of a criminal drug offense

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## Background Checks, cont'd

can disqualify an individual from employment. There are provisions that govern offenders and/or persons convicted of more than one criminal drug offense. Felony convictions and convictions involving crimes of moral turpitude, (i.e., murder, rape, vicious assault), automatically disqualify an individual from employment in a position of trust. A person may have a criminal background history, but that history may or may not permanently disqualify them from employment with USG. The USG Background Investigation Committee will consider the responsibilities of the position, the type of conviction, the amount of time elapsed since conviction, and restitution made, to determine a candidate's eligibility.

Candidates who have unfavorable credit histories may be ineligible for employment depending upon the specific issues of their credit reporting. Credit issues involving delinquent student loans, excess installment debt, default on loans and bankruptcies, unpaid collections, unresolved judgments, and other forms of credit delinquency may adversely impact employment decisions. The Human Resources Manual provides guidelines for institutions to use when interpreting credit reporting issues.

### What Should Institutions Do to Comply with Conducting A Background Investigation?

The employment background check process is auditable. Therefore, ensuring that employment guidelines are accurately followed is critical for legal and administrative **compliance**. Following is the process for conducting an employee background investigation.

#### Hiring Manager

- Include the background investigation requirement in the job posting indicating that finalists will be required to submit to a background investigation.
- Obtain a signed consent form from the candidate agreeing to the background investigation.
- Submit the signed consent form to the Hiring Office, who will initiate the Background Investigation into that candidate.

#### Hiring Department

- Initiate the background investigation.
- Obtain the investigative report.
- Notify the Hiring Department of the Background Investigation Committee (BIC) hiring determination. The BIC makes its decision about the selected candidate's eligibility.
- Notify candidate of ineligibility by providing them with a pre-adverse action disclosure (candidate may respond to issues).
  - If cleared, the candidate is eligible for employment.

*Is your staff trained on employment and hiring policies and procedures?*

### We Have Resource Tools

*Human Resources Administrative Practice Manual: Employment Policy*

*Board of Regents Policy Manual, Section 8: Personnel*

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- If not cleared, the candidate may dispute the issues in the investigative report privately.
- Notify the Hiring Department of hiring decision eligibility

#### Background Investigation Committee

- Determines the candidate is eligible, and then the Hiring Office will notify the Hiring Department.
- Determines the candidate is not eligible, and then prior to making this final determination, the Hiring Office must give a pre-adverse action disclosure to the candidate.

At each point in this process, documentation is issued between the Hiring Manager/Department, Hiring Office, and Background Investigation Committee. The correspondence about the background investigation must be included in the candidate's hiring application, and ultimately in the employee's personnel file.

After a candidate is hired, the employee continues to have responsibility for notifying the USG of any post-employment criminal actions. An employee is responsible for reporting new criminal actions to their Hiring Office within 72 hours of being charged with a crime, and if convicted, responsible for reporting their conviction with 24 hours of the conviction. Failure to report post-employment criminal activity may result in disciplinary action and/or termination of employment. Once reported, the BIC will investigate the criminal activity charges and determine the employee's continued employment. If you have questions about the process or require additional information, feel free to contact me for a consultation.

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## 5 Most Common External Audit Issues – FY2011

*By Ted Beck*

Education Audit Division reports can be viewed and/or downloaded from the Dept. of Audit and Accounts public website via the following URL:

<http://www.audits.ga.gov/rsaAudits/viewMain.aud>

Filter the reports by selection "Education Audit" under the "Divisions" header, and "Colleges - Financial Reports" under the "Categories" header. Six fiscal years of reports are available.

The Education Audit Division of the Georgia Department of Audits and Accounts performs financial and compliance audits and other engagement activities for all public colleges and universities within the state of Georgia each fiscal year.

The USG Office of Internal Audit and Compliance, along with other administrative divisions within the USG enterprise, closely monitor the results of these external audits, and track the resolution of any identified issues as a standard business practice. The following represents the five most commonly identified issues across all USG institutions, along with a brief description of the recommended resolution.

These issues have been grouped and summarized by

## 5 Most Common External Audit Issues - FY2011

commonly identified categories; nearly 20 percent of all identified FY 2011 issues were associated with one of the following issue categories. We present these as recommended best practices in the hopes of limiting their occurrence throughout USG in future audit engagements.

1. Inadequate internal controls
  - a. **Issue** – Management is tasked with maintaining internal controls of a level necessary to provide reasonable assurance that stated balances and amounts are properly documented, processed, and reported.
  - b. **Recommended resolution** – Implement policies and procedures which ensure all balances and amounts are properly documented, and regularly reviewed and reconciled.
2. Reserve for tuition carry-over was improperly calculated
  - a. **Issue** – Budget basis reserves reported by the institution on the *Summary Budget Comparison and Surplus Analysis Report* must be properly documented, validated, and appropriate.
  - b. **Recommended resolution** – Management should ensure all information presented as part of its financial statements, including budgetary amounts required by state accounting regulations, is maintained in an accurate manner along with appropriate supporting documentation.
3. SEFA information did not agree with federal expenditure activity reflected in accounting records
  - a. **Issue** – The Schedule of Expenditures of Federal Awards reported by institutions to the Georgia Department of Audits and Accounts must be properly presented, and supported by the institution's accounting records.
  - b. **Recommended resolution** – Management should regularly review the financial data produced by its official accounting systems, and regularly reconcile federal award data to reported amounts to ensure these figures agree.
4. Inadequate accounting procedures
  - a. **Issues** – Management must establish, maintain, and monitor internal controls for the purpose of ensuring the fair presentation of all accounting and other financial statements.
  - b. **Recommended resolution** – Implement policies and procedures focused on strengthening the accounting and financial reporting processes, to include regular review and reconciliation, and appropriate segregation of duties as needed.
5. Inadequate controls over financial reporting
  - a. **Issue** – Adequate controls were not in place to ensure all required activity was included in the financial statement presented for audit, including ledgers other than the general ledger.
  - b. **Recommended resolution** – Management must implement and maintain a system of internal control as part of the preparation of the financial statement so that it is presented in accordance with generally accepted accounting principles.

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## COSO Internal Control Integrated Framework Proposed Updates

By D. Randy Pearman, CPA, MPA

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission is a voluntary private-sector organization dedicated to providing thought leadership to executive management and governance entities. COSO consults on critical aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting.

*The COSO consists of five supporting organizations, including the Institute of Management Accountants (IMA), the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), and Financial Executives International (FEI).*

In 1992, COSO and PricewaterhouseCoopers (PWC) established a common internal control model called the *Internal Control Integrated Framework (ICIF)*, used by companies and organizations to assess their internal control systems. The ICIF gained popularity in the early 2000's after meltdowns of several U.S. corporations including Enron, WorldCom, Global Crossing, and Tyco. This article will address the proposed updates to the ICIF and how the framework applies to local campus internal controls.

Twenty years after its inception, COSO and PWC are updating and improving the existing ICIF, emphasizing a series of updates to the original document, not changes. This project is COSO's effort to align the ICIF with changes that have occurred in the business environment, i.e. stakeholder expectations, financial and regulatory laws, and technology. Input was sought from private industry, academics, government agencies, and not-for-profit organizations during the update process. The ICIF updates are scheduled to be completed during the first quarter of 2013.

### Why is it happening?

The core concepts of the original framework remain unchanged. However, there may be changes pertaining to the way some of the concepts are applied. Objectives of the project include adding more focus on operational and compliance control objectives, and explicitly identifying principle points of focus to provide efficiency and a basis for evaluating effectiveness of operations. COSO will also produce tools (templates and scenarios) for assessing the overall effectiveness of internal control and a companion guide applying the ICIF over external financial reporting.

### What is changing?

COSO's desired outcome is to provide the governance community with the following:

- 1) Seventeen principles that may be universally applied to develop and evaluate the effectiveness of internal control systems;
- 2) Expanded financial reporting objectives to address internal, external, financial, and nonfinancial reporting objectives; and
- 3) Increased focus on operations, compliance, and nonfinancial reporting objectives.

Since the project represents updates and not changes, the impact of the ICIF updates on the University System of Georgia (USG) and individual campuses should be positive. If our control systems currently incorporate the tenants of the original ICIF, the updates will continue to strengthen our internal control system. The updated ICIF should simply supply more details and tools to use in examining control systems, and give greater confidence in our assertions about those systems.

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What is not changing?

The ICIF was a well thought-out and useful document. Its original concept continues to be valid, and many points within the framework will remain unchanged. For instance, the definition of internal control remains unchanged:

*“A process effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: a) effectiveness and efficiency of operations, b) reliability of financial reporting, and c) compliance with laws and regulations.”*

The five components of internal controls will also remain unchanged.

1. *Control Environment – the tone of the organization*
2. *Risk Assessment – the goals of the organization and the perceived threats to those goals*
3. *Control Activities – the organizations policies and procedures*
4. *Information and Communications*
5. *Monitoring Activities – the assessment of a system of control over time*

The fundamental criteria used to assess the effectiveness of systems of internal control and the use of judgment in evaluating the effectiveness of systems of internal control will also remain in place.

#### An In-depth Look at the Codification of the 17 Principles

However, the updated framework provides attributes, explanations, and examples of how the 17 principles fit into the control component. COSO believes that the principles were always implied by the language of the framework and that the updates simply reduce to writing principles that were already present. The 17 principles will be defined and described in the next issue of the *Briefing*.

David Randy Pearman  
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### COSO - 17 Principles for Internal Control Systems

#### **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. *Establishes accountability*

#### **Risk Assessment**

6. *Specifies relevant objectives*
7. *Identifies and assesses risk*
8. *Identifies and assesses significant changes*
9. *Assesses fraud risk*

#### **Control Activities**

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

#### **Information and Communication**

13. *Generates relevant information*
14. *Communicates internally*
15. *Communicates externally*

#### **Monitoring Activities**

16. *Conducts ongoing and separate evaluations*
17. *Evaluates and communicates deficiencies*

## Internal Control Issues Concerning Grant Awards

By Sandra Evans and Rob Roy

Whether a grant award is the institution's first or its fiftieth, it is crucial for the institution to establish a structure for successful administration of the grant program. This article will address the concept of internal controls as a critical element in establishing a grant award infrastructure.

Internal controls define responsibilities, specify required activity reports and mitigate risks. The use of internal controls provides reasonable assurance that operational objectives may be achieved. These controls should include the following:

- Management Responsibility
  - Grant application timing, composition, comprehensive budget, and program structure, including statement of work, committed effort, compliance;
  - Budget development and spending plans, mandatory cost share, required budget amendments, and financial reporting to responsible parties, including funding agency; and,
  - Sub-awards and sub-recipient monitoring, if applicable.
- Report Requirements
  - Progress of programmatic results as defined in the original statement of work and budget request;
  - Programmatic personnel changes including Principal Investigator (PI), delays, and changes necessary to reach completion;
  - Time and effort; required monitoring of proprietary, confidential or classified data, site visits, asset purchases and tracking, and compliance with Federal or granting agency regulations, close out.
- Risk Assessment
  - Inefficient or ineffective members of the

- grant management or research team;
- Inaccurate time and effort reporting or supporting documentation;
- Cost over runs or funds remaining at conclusion of grant period;
- Delayed or inaccurate reporting to funding agency;
- Inadequate grants management policies and procedures, training, or implementation;
- Compliance with applicable laws and regulations, Board of Regents policy, USG procedures, Institution policy and procedures, Granting agency policy and procedures, and Federal policy.

There are additional key factors that support a strong internal control system. Two of the most significant are separation of responsibilities/duties and an effective conflict of interest program. An internal control system should establish division of responsibilities for those individuals who prepare, review, affirm, negotiate, and/or approve grants. In this respect, internal control is each employee's responsibility. If insufficient staffing is an issue, then an objective third party, familiar with the grant details and agency requirements, could provide a compensating control.

In the area of grants, duties of the PI and research related support staff should be different from duties of the Office of Sponsored Programs (OSP) staff. If the line between OSP and PI is removed (OSP personnel are the PI or research staff), then a level of internal controls is removed.

Conflict of interests can be financial, reputational, commitment (i.e. other commitments prevent full effort to primary responsibilities), or personal (i.e. use of grant



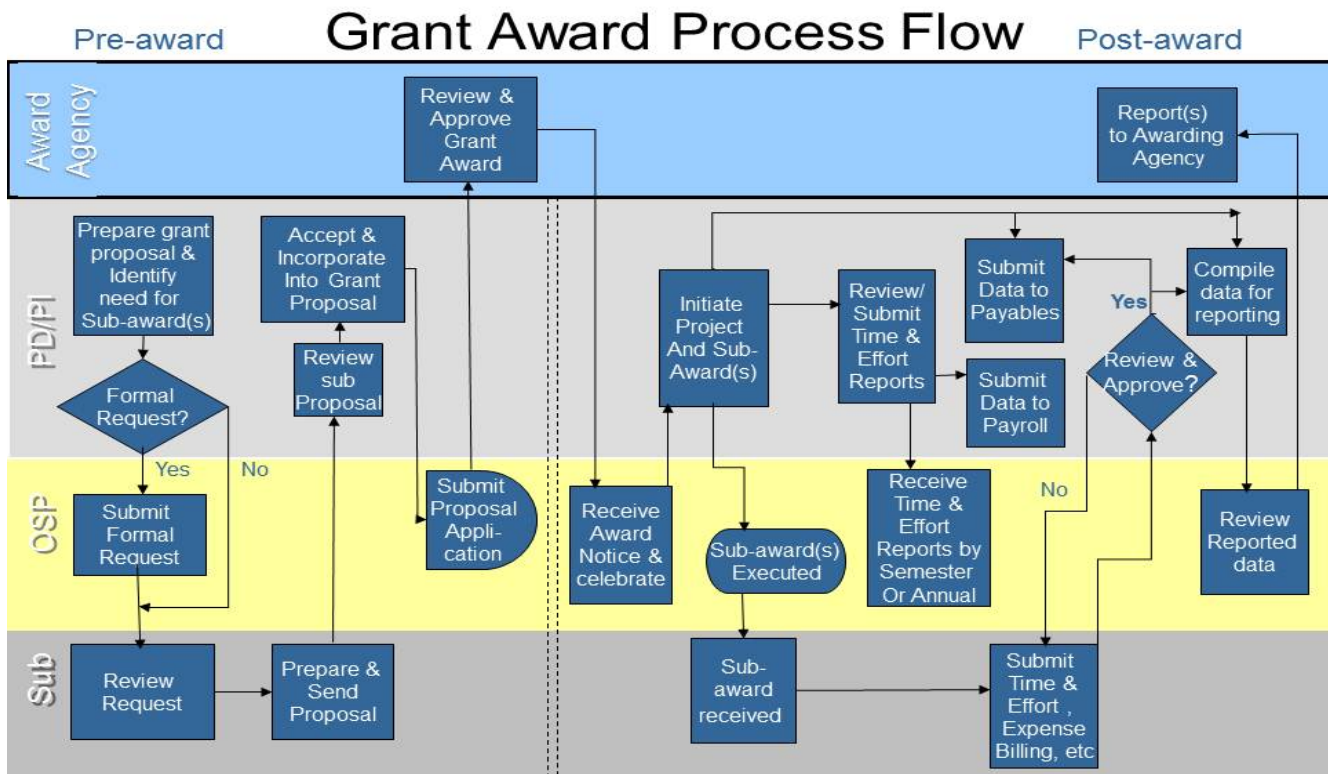
funds for personal equipment or travel). Employment of relatives can be perceived as a conflict if a personnel action is within a hiring manager’s span of management control, even when the relative is not a direct report. See BOR Policy Section 8.2.3, specifically “line of authority”. Each institution should include references to conflict of interest in their grant administration policy, and require mitigation plans when conflicts of interest are identified.

Opportunities for errors exist at each step of the grant administration process, increasing the risks of incorrect financial reporting, non-compliance with regulations, fines, and/or return of funds to the granting agency. Internal controls designed to detect errors are essential to successful operations. The challenge is to identify risk areas and to design controls that will reduce risks or to detect vulnerabilities. In the next issue of *Briefing*, we will publish a list of common risks.

The BOR expects that institutions will properly administer federal grants. Many USG institutions provide educational, informational or technical training on structure and guidance grants administration. The OIAC encourages all institutions to develop internal control systems that will help reduce risks and detect vulnerabilities in grant processes. Below is a high-level chart illustrating grants processing. The four horizontal bands represent the Awarding Agency, PI, and research support team, the Office of Sponsored Programs or Research, and sub-recipient entities.

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## DID YOU KNOW?

### Regulations Regarding Military Identification...

United States Code Title 18, Chapter 33, Section 701 prohibits unauthorized photocopying, reproduction, or possession of Uniformed Services ID (military ID) cards under penalty of fine or imprisonment. A military I.D. may only be copied for awarding DOD benefits by the federal government.

The USG adheres to this rule. Photocopying or faxing military IDs to document lawful presence, award military personnel out-of-state tuition waivers, or exempt the special institutional fee for members of the military, is not authorized.

As an alternative to making or accepting copies of military identification cards, institutions should use the Confirmation of Review of Military ID Worksheet to document that a military ID has been reviewed. The Confirmation of Review of Military ID Worksheet can be found under Military Materials under Sample Petition and Out-of-State Tuition Waiver Application Materials on the Tuition Classification Status Information resource page. The worksheet is also available under Other Resources on the Verification of Lawful Presence resource page. The resource pages can be accessed from the Student Affairs website: ([http://www.usg.edu/student\\_affairs/](http://www.usg.edu/student_affairs/)).

*Also refer to Memorandum dated August 23, 2012 from Sarah Wenham, Director of Student Access*

## Office of Internal Audit and Compliance

*The Office of Internal Audit and Compliance (OIAC) mission is to support the University System of Georgia management in meeting its governance, risk management and compliance and internal control (GRCC) responsibilities while helping to improve organizational and operational effectiveness and efficiency. OIAC is a core activity that provides management with timely information, advice and guidance that is objective, accurate, balanced and useful. OIAC promotes an organizational culture that encourages ethical conduct.*

*We have three strategic priorities:*

- *Anticipate and help to prevent and to mitigate significant USG GRCC issues.*
- *Foster enduring cultural change that results in consistent and quality management of USG operations and GRCC practices.*
- *Build and develop the OIAC team.*

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