



# Office of Internal Audit and Compliance

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## Briefing

Volume 1, Issue 3

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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

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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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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

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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

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- o If not cleared, the candidate may dispute the issues in the investigative report privately.

- x Notify the Hiring Department of hiring decision eligibility

#### Background Investigation Committee

- x Determines the candidate is eligible, and then the Hiring Office will notify the Hiring Department.

- x 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 D0 se..1.325Spons7 TD0 T 1 T s1nal ac 0 ss7 TD0tmæuedse..1.3e



## 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 explicit



## 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:

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

- o grant management or research team;
- o Inaccurate time and effort reporting or supporting documentation;
- o Cost over runs or funds remaining at conclusion of grant period;
- o Delayed or inaccurate reporting to funding agency;
- o Inadequate grants management policies and procedures, training, or implementation;
- o 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

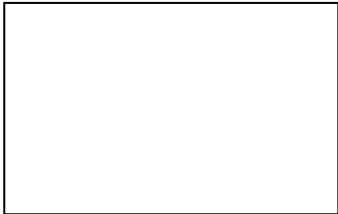




DID YOU KNOW?

Regulations Regarding Military Identification...

United States Code Title 18, Chapter 39, Section 701 prohibits unauthorized



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:

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

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