APA Update

FOCUS Conference
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Objectives

- Outline changes between SAS 115 and SAS 112
- Discuss issues identified during audits
- Present on special reports issued during 2009 and anticipated during 2010
Outline Changes between SAS 115 and SAS 112
How SAS No. 115 Differs From SAS No. 112 (Reference 1):

<table>
<thead>
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<th>Change</th>
<th>SAS 112</th>
<th>SAS 115</th>
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<td>Revises definitions of the terms <strong>material weakness</strong> and <strong>significant deficiency</strong> (sections changed are shown in italics for emphasis)</td>
<td>- A <strong>material weakness</strong> is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. - A <strong>significant deficiency</strong> is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.</td>
<td>- A <strong>material weakness</strong> is a deficiency, or combination of deficiencies, in internal control, such that there is a <strong>reasonable possibility</strong> that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. - A <strong>significant deficiency</strong> is a deficiency, or a combination of deficiencies, in internal control that is less severe than a <strong>material weakness</strong>, yet <strong>important enough to merit attention by those charged with governance</strong>.</td>
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<td>Changes the unconditional requirements to presumptive requirements <em>(changes shown in italics for emphasis)</em></td>
<td>- Stated the auditor <em>must</em> evaluate identified control deficiencies to determine whether significant deficiencies or material weaknesses exist. - Also stated that significant deficiencies or material weaknesses identified during the audit <em>must be</em> communicated in writing to management and those charged with governance in conformity with the standard.</td>
<td>- States the auditor <em>should</em> evaluate the severity of identified deficiencies to determine whether significant deficiencies or material weaknesses exist. - Also states that significant deficiencies or material weaknesses identified during the audit <em>should be</em> communicated, in writing, to management and those charged with governance in conformity with the standard.</td>
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<td>Clarifies the requirements for consideration of compensating controls <em>(changes shown in italics for emphasis)</em></td>
<td>- In determining whether a control deficiency or combination of control deficiencies is a significant deficiency or material weakness, <em>the auditor also should evaluate the possible mitigating effects of effective compensating controls that have been tested</em> and evaluated as part of the financial statement audit.</td>
<td>- Management may inform the auditor, or the auditor may otherwise become aware, of the existence of compensating controls that, if effective, may limit the severity of the deficiency and prevent it from being a significant deficiency or a material weakness. In these circumstances, although <em>the auditor is not required to consider the effects of compensating controls</em> for purposes of this section, <em>the auditor may consider the effects of compensating controls related to a deficiency in operation provided the auditor has tested the compensating controls for operating effectiveness as part of the financial statement audit.</em></td>
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<td>Changes the “prudent officials” test</td>
<td><em>The auditor should conclude whether prudent officials, having knowledge of the same facts and circumstances, would agree with the auditor’s classification of the deficiency.</em></td>
<td>*If the auditor determines that a deficiency, or a combination of deficiencies, is not a material weakness, <em>the auditor should consider whether prudent officials, having knowledge of the same facts and circumstances, would likely reach the same conclusion.</em></td>
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<td>Deletes list of indicators of significant deficiencies</td>
<td>Lists indicators of control deficiencies that should be regarded as at least significant deficiencies and strong indicators of material weaknesses in internal control.</td>
<td>No longer includes a list of deficiencies that ordinarily would be considered at least significant deficiencies.</td>
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| Reduces the list of deficiencies in internal control that are strong indicators of material weaknesses (items listed have been eliminated) | - An ineffective internal audit function or risk assessment function at an entity for which such functions are important to the monitoring or risk assessment component of internal control, such as for very large or highly complex entities.  
- For complex entities in highly regulated industries, an ineffective regulatory compliance function. This relates solely to those aspects of the ineffective regulatory compliance function for which associated violations of laws and regulations could have a material effect on the reliability of financial reporting.  
- Failure by management or those charged with governance to assess the effect of a significant deficiency previously communicated to them and either correct it or conclude that it will not be corrected.  
- An ineffective control environment. Control deficiencies in various other components of internal control could lead the auditor to conclude that a significant deficiency or material weakness exists in the control environment. |
Issues Identified During Audits
Cash Handling

- Ensure prompt deposits
- Maintain complete audit trail
- Implement proper separation of duties
- Improve oversight of off-site locations
Revenue

- Ensure strong administration over revenue contracts
- Improve process for entering tuition and fee rates
- Restrict capability to perform write-offs
Purchasing

- Delete purchasing system access promptly for terminated employees

- Improve SPCC Administration to include audit trail, purchase limits and potential split purchases
Capital Assets

- Ensure construction projects are removed from CIP promptly

- Ensure that CIP deletions are recorded in the accurate category

- Ensure that a full inventory is taken in accordance with CAPP Manual requirements
**Systems Access**

- Perform reviews of access to all systems
- Ensure passwords are changed regularly
- Ensure that existing access is reasonable based upon employee’s job responsibilities
- Implement separation of duties for system access
- Formalize Chief Security Officer reporting responsibility to Agency Head
Federal

- Perform accurate Title IV calculation
- Return Title IV funds timely
- Review figures reported in the FISAP for accuracy
- Ensure compliance with exit counseling requirements for loans
Financial Reporting

- Identify system efficiencies to eliminate manual processes
- Consider performing analyses to highlight potential problems
- Perform a quality review process as statements are being prepared
Special Reports Issued in 2009 and Anticipated for 2010
Accounts Receivable Review

- In part one of the Accounts Receivable review, we focused on looking at what made up the receivables line items throughout the Commonwealth and what were those receivables being used for after they were collected. The report noted that those accounts receivable amounts collected already were designated for use; they aren’t income available to spend once received.

- Part two is expected to come out in 2010 and focuses on Best Practices and whether agencies are following these best practices.
In our report published in August 2009, we concluded that data collection procedures followed by the colleges and universities and SCHEV were adequate to provide for the accuracy, reliability, and security of data reported as part of the Institutional Performance Standards certification process. Four recommendations resulted:

- Document Policies and procedures related to SCHEV reporting
- Cross-train employees on the various processes to ensure information is developed and reported consistently each year
- Enhance the SCHEV website to make information easier to find
- Continue to implement a certification subcommittee and related processes
Housing Study

- In our report after phase one of this study, we concluded that Virginia’s state supported universities had differing policies regarding mandatory on-campus housing based on their goals for on-campus housing. We also concluded that universities have sufficient demand for their current on-campus housing inventory and plan on expanding on-campus housing as funding permits. Finally, we concluded that working with their foundations to fund additional on-campus housing give universities important flexibility as to construction and leveraging their assets.
One-Card Report

In our report published in July 2009, we concluded that:

- controls over One Card issuance are generally adequate to ensure that only appropriate individuals are issued One Cards;
- universities have proper accounting controls to ensure they process only authorized One Card transactions; and
- Universities are properly reporting One Card balances in the annual financial statements

The report suggested that universities could enhance their data security by ensuring their policies and procedures are similar to those required by Payment Card Industry Data Security Standards since One Card usage is similar to credit cards.
The Office issued a report comparing the Commonwealth’s 40 internal audit departments including a review of their charters, risk assessments, work plans, reports of results, and quality assurance reviews as required by the Institute of Internal Auditors. Recommendations included more cost-effective strategies for complying with the standards and industry best practices. Our report also contains guiding principles which boards may consider in developing their own methods for evaluating their internal auditors against industry best practices.
Anticipated Reports for 2010

- Investment Policy Review
- Disbursements Review
Questions?
References

1. “Statement on Auditing Standards No. 115, Communicating Internal Control Related Matters Identified in an Audit,”
AICPA website: [http://aicpa.org/](http://aicpa.org/)