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**Responsible Executive:** VP for Financial Affairs

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# Statement on Auditing Standards (SAS) No. 115

## Policy Contents

I. REASON FOR THIS POLICY.....	1
II. STATEMENT OF POLICY .....	1
III. DEFINITIONS .....	2
IV. PROCEDURES.....	3
V. RELATED DOCUMENTS, FORMS AND TOOLS .....	6

## I. REASON FOR THIS POLICY

Statement on Auditing Standards No. 115 (SAS 115) provides guidance to external auditors regarding how they should communicate internal control-related matters identified in their audit of an organization's financial statements. This policy documents the internal controls in place at the University of South Dakota (USD) which are intended to prevent and detect internal control deficiencies.

## II. STATEMENT OF POLICY

### USD Key Department Controls

1. **General Ledger Verification and Review (All USD Organizations)** – Actual revenues and expenses for each organization are monitored on a regular basis by comparing against budget or prior year to assess for accuracy and reasonableness. Unexplained variances based on expectations are investigated to ensure accuracy. The verification is reviewed and signed by the organization financial manager.
2. **Payroll Expense Review (All USD Organizations)** – Detailed payroll expenses are reviewed each month by each organization for general propriety and to validate the accuracy of the charges. For example, departments review the accuracy of employee names and pay rates, and/or

for possible other key entry errors. The review is signed by the organization financial manager.

3. **Identity Management (User System Access) Review** – System access reports are reviewed quarterly by each organization. Department determines if an employee's access and roles are appropriate for his or her current job responsibilities and provides for the proper segregation of duties within the unit. Department follows up on deletions or other updates as needed.
4. **Physical Inventory** – Physical Inventory of equipment is conducted annually by each organization. After the inventory is performed and all issues are resolved, the Physical Inventory Verification Form is signed and returned to the Accounting Department.
5. **Invoice Review** – All direct pay invoices are reviewed and approved by a department manager prior to being submitted to the accounting department for payment approval.

#### **Other Key Controls:**

1. Local bank accounts (First Bank and Trust and First Premier) are reconciled monthly by the Assistant Comptroller. The reconciliation is reviewed and approved by the Comptroller.
2. Petty Cash boxes are counted two times per year by the Accounting Department. Necessary adjustments are made within Banner.
3. Permanent Incidental Fund (PIF) cash is counted once per month by the Fixed Asset Accountant. Necessary adjustments are made within Banner.
4. All purchasing requests are reviewed and approved by a department manager prior to being submitted to Purchasing for approval.
5. A review of deficit funds is performed at the end of each month by the accounting department. An email is sent to the fund financial manager for funds with a negative cash balance and that requires further explanation. The deficit must be corrected or an explanation provided by the third week of the following month.
6. Reconciliations are performed daily by Business Office cashiers. The reconciliations are reviewed and approved by at least 2 individuals, including the Business Office Manager.
7. A review of adjustments to student accounts within Datatel is performed biannually at the end of each term to assess the reasonableness of these adjustments. The report is sent to the V.P. of Finance for review.
8. All Banner journal entries are reviewed and approved by an individual separate from the individual who initiated the journal entry.

### **III. DEFINITIONS**

SAS 115 defines three categories of deficiencies as described below. The nature of the deficiency is a function of the seriousness of its potential impact on the financial statements.

**Control Deficiency:** A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

**Significant Deficiency:** A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Material Weakness:** A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

## IV. PROCEDURES

### **General Ledger Verification and Review**

Verification and review of org general ledgers are important financial controls that help detect and prevent fraudulent or inappropriate transactions from occurring. They are components of a prudent financial management strategy.

Org ledgers should be verified and reviewed on a regular basis since the passage of time makes it increasingly difficult to detect and act upon questionable transactions. A department must show evidence of review by documenting the name, signature, and date of the individuals who performed and reviewed the GL verification.

A checklist has been developed to help departments document the necessary evidence that the controls have been performed. It is not required to use this checklist, however if a department decides to carry out the control by some other means, it will still need to document performance of the controls in a clear way that can be observed and understood by third parties. In all cases, there should be evidence of a signature of the reviewer (i.e. organization manager) as well as the date on which the control was carried out.

The control should be carried out within 30 days after the end of the month. For example, if general ledger verification is performed for the month of September, the control should be completed no later than October 31st.

### ***Role Assignment***

#### **Separation of Duties**

Duties should be separated between preparation and review whenever possible. As a minimum, two individuals are required.

#### **Preparation**

The responsibilities of the individual preparing the organization's ledgers are to:

- Running reports monthly

- Provide reasonable assurance that financial transactions are valid and properly classified to the correct Banner account.
- Investigate any unusual changes in summary ledger balances.
- Report or act upon any transactions that are questionable.

### Review

It is expected that the organization manager will perform the ledger review. The responsibilities of this role are to:

- Ensure the verification has been performed and review the work of the preparer.
- Review summary financial reports for accuracy, appropriateness, and proper compliance.
- Confirm all unusual items have been researched and resolved on a timely basis (within 30 days).

### **General Advice**

In reviewing transactions in the ledger, the preparer should be looking for questionable transactions that may be erroneous, invalid, inappropriate, or violating university policies. In cases where there are unusual changes in account balances, it is the responsibility of the preparer to investigate further by researching the details of the account. See below for advice regarding methods of researching questionable or inappropriate transactions.

#### **1. Unusual transactions:**

- Expenditures that are out of line with the norm (e.g. in comparison to the same period in the prior year), made to unknown or inappropriate vendors, or to vendors with an unusually large volume of transactions even if the transaction amounts are not individually significant.
- Keep in mind that smaller dollar transactions represent a lower risk than higher dollar transactions.

#### **2. Duplicate or erroneous payments:**

Transactions involving the same vendor, invoice date, and/or payment amount.

#### **3. Correct Fund, Account, or Fund Year:**

Transactions which were booked to an incorrect or inappropriate fund, account or to an incorrect period.

#### **4. Reasonableness:**

- The experienced reviewer will be able to spot transactions that appear unreasonable.
- Even the inexperienced reviewer should be able to identify many potentially erroneous or inappropriate transactions.
- For instance, the purchase of food or beverages on federal contracts is

- sometimes prohibited. As a result, finding a transaction involving "Samantha's Catering Services" recorded against a federal fund code should raise suspicions and lead to further investigation.

**5. Allowable per policy:**

Greater scrutiny of supporting documentation may be appropriate on a sample basis for accounts with significant policy implications - e.g., alcohol included in meal costs for travel or entertainment.

**6. Deviations from anticipated or past expenditure patterns**

Another useful review approach is to analyze expenditures by natural class based on a percentage of total expenditures (e.g. total supplies expenses as a percentage of total expenses) as opposed to looking at each individual account. Then, compare these percentages to historical or budgeted expenditure percentages.

- Percentages can be based upon either a monthly or year-to-date basis.
- In areas where activity significantly fluctuates during the year, e.g. a department authorizes more overtime during year-end, consideration should be given to these fluctuations in analyzing the data.

**7. Categories of transactions**

Group revenues/expenses by categories and establish guidelines for reviewing each of the categories.

- Student Tuition and Fees
- Auxiliary Enterprises
- General Sales and Services
- Grant Revenue
- Other Revenue
- Payroll
- Travel Expenses
- Contractual Services
- Supplies and Materials
- Grants and Subsidies
- Other Expenses

**Payroll Expense Review**

Payroll expenses represent approximately half of all operating expenses at USD and thus require a greater level of review and scrutiny. To effectively and efficiently review payroll expenses each month, current month expenses within an organization can be compared to those of the previous month in order to

determine whether or not expenses for the current month are reasonable. For example, there may be an increase if a new employee was recently hired or a decrease if a part-time student has left for the summer.

Note that there are some organizations which do not include payroll expenses. In these cases, this control will not need to be carried out, and this will need to be documented.

**Best practices:**

- Confirm that overtime was pre-approved.
- Verify that all new hires, terminations, and other payroll actions were processed correctly.
- Confirm that payments are correct.
- Compare actual payroll costs to estimated costs to discover any variances.

**Potential consequences if payroll verification and review are not performed:**

- Improper charges made to department budgets
- Payments made to non-existing employees
- Duplicate payments made
- Inaccurate recording of payment type distorts employee data
- Financial records are misstated
- Overpayments

## V. RELATED DOCUMENTS, FORMS AND TOOLS

Statement on Auditing Standards No. 115

[Key Financial Controls Checklist:](#)