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## AN INTRODUCTION TO UNIFORM GUIDANCE

Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

<table>
<thead>
<tr>
<th>Uniform Guidance</th>
<th>Description</th>
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<tbody>
<tr>
<td>I</td>
<td>Federal agencies must implement the requirements to be effective by <strong>December 26, 2014</strong>.</td>
</tr>
<tr>
<td>II</td>
<td>Administrative requirements and cost principles will apply to new awards and to additional funding (funding increments) to existing awards made after <strong>December 26, 2014</strong>.</td>
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<tr>
<td>III</td>
<td>Audit requirements will apply to audits of non-Federal entity fiscal years beginning on or after <strong>December 26, 2014</strong>. The revised audit requirements aren’t applicable to fiscal years beginning prior to that date.</td>
</tr>
<tr>
<td>IV</td>
<td>Existing Federal awards will continue to be governed by the terms and conditions of the Federal award.</td>
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OBJECTIVE OF UNIFORM GUIDANCE

The following OMB Circulars are superseded, resulting in one comprehensive set of regulations:

- **A-21, Cost Principles for Educational Institutions**
- Sections of A-50, Audit Follow-Up, related to Single Audits
- **A-87, Cost Principles for State, Local and Indian Tribal Governments**
- **A-89, Federal Domestic Assistance Program Information**
- **A-102, Awards and Cooperative Agreements with State and Local Governments**
- **A-110, Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations**
- **A-122, Cost Principles for Non-Profit Organizations**
- **A-133, Audits of States, Local Governments and Non-Profit Organizations**
The Uniform Guidance places strong emphasis on internal controls to reduce the risk of waste, fraud, and abuse in the stewardship of federal funding. Internal controls are the organizational processes implemented to ensure operational effectiveness and efficiency, reliability of internal and external reporting, and compliance with applicable laws and regulations.
The non-Federal entity must:

(a) **Establish and maintain effective internal control** over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These **internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations.**

(b) **Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.**

(c) **Evaluate and monitor** the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.

(d) **Take prompt action when instances of noncompliance are identified** including noncompliance identified in audit findings.

(e) **Take reasonable measures to safeguard protected personally identifiable information and other information** the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state, local, and tribal laws regarding privacy and obligations of confidentiality.
KEY AREAS OF OPERATIONAL RISK IN SPONSORED PROGRAMS ADMINISTRATION

- Compensation and documentation (effort reporting/payroll certification)
- Subrecipient monitoring
- Cost sharing
- Late cost transfers
- HHS and NSF OIGs identify internal controls themselves as an area of focus in FY16 Work Plans
AN OVERVIEW OF COSO

• The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of five private sector organizations, including The IIA, established in the United States.

• The COSO Internal Controls Framework provides guidance on the design and evaluation of internal controls.
THE COSO FRAMEWORK
## THE COSO FRAMEWORK

<table>
<thead>
<tr>
<th></th>
<th>Traditional Internal Controls</th>
<th>Internal Controls under COSO</th>
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<tbody>
<tr>
<td><strong>OBJECTIVES</strong></td>
<td>Primarily focused on accurate financial reporting.</td>
<td>Considers reporting, compliance, and operations.</td>
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<tr>
<td><strong>ENTITY</strong></td>
<td>Typically looked at detailed processes.</td>
<td>Covers all levels of the entity, from senior management/board to individual functions.</td>
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<tr>
<td><strong>COMPONENTS</strong></td>
<td>Primarily focused on control activities.</td>
<td>Looks beyond control activities to:</td>
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<tr>
<td></td>
<td></td>
<td>• Control Environment</td>
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<tr>
<td></td>
<td></td>
<td>• Risk Assessment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Information and Communication</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Monitoring</td>
</tr>
<tr>
<td>ELEMENTS AND PRINCIPLES</td>
<td>CONTROL ENVIRONMENT</td>
<td>RISK ASSESSMENT</td>
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<tr>
<td></td>
<td>Demonstrates commitment to integrity and ethical values</td>
<td>Specifies suitable objectives</td>
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<tr>
<td></td>
<td>Exercises oversight responsibility</td>
<td>Identifies and analyzes risk</td>
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<tr>
<td></td>
<td>Establishes structure, authority and responsibility</td>
<td>Assesses fraud risk</td>
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<tr>
<td></td>
<td>Demonstrates commitment to competence</td>
<td>Identifies and analyzes significant change</td>
</tr>
<tr>
<td></td>
<td>Enforces accountability</td>
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KEY CHARACTERISTICS OF A COSO-COMPLIANT CONTROLS APPROACH

• Coordination across the institution.
• Significant involvement at all levels of management.
• Long term approach focused on continuous improvement.
• Centrally held and up-to-date repository of documentation.
• Documentation of key controls addressing the 17 principles of internal controls per COSO, potentially to include:
  • Process narratives
  • Process maps
  • Risks and controls matrices
• Holistic and regular assessment of the design of controls.
• Management review of the effectiveness of controls (often performed by Internal Audit on behalf of management).
As of fiscal years beginning after December 26, 2014, institutions receiving Federal funds are expected to have a documented control set based on COSO or Green Book standards.

Institutions not in compliance with Section 303 could face the following consequences.

- Single Audit findings
- Office of Inspector General (OIG) findings including questioned costs
- Decreased Federal funding
- Decreased subawards of pass-through Federal dollars
- Reputational impact
BENEFITS OF IMPLEMENTING COSO: BEYOND COMPLIANCE

A central, consistent set of controls documentation allows:

• More thorough understanding and easier assessment of the design of controls by management.
• Cross-functional visibility and potential for establishment of shared controls.
• A deeper understanding of risks and controls (including residual risks and needed investment) by senior management.
• Controls testing to be performed by Management or Internal Audit with minimal walkthroughs.
• Quick identification of the root cause of a noted issue.
• Easier review of controls documentation by external audit, lessening the need for institutional resources.
• Convenient and immediate documentation to be provided to OIG or sponsor auditors, decreasing institutional education and enhancing confidence.
• Potential reliance on management’s testing of controls by external or OIG auditors.
CASE STUDY #1

- Champion: Internal Audit
- Format: Process flows with key control points noted
- Approach:
  - Internal Audit drafted process flows based on previous knowledge and documented policies and procedures
  - Baker Tilly provided subject matter expertise to Internal Audit
  - Internal Audit refined documentation with Sponsored Research
- Timeline: Six months
- Challenges: Little management buy-in, lack of comprehensive approach, focus on controls rather than risks
- Outcome: Compliance with UG
CASE STUDY #2

- Champion: Sponsored Programs and Internal Audit
- Format: Process flows and risks and controls matrices
- Approach:
  - Sponsored Research and Internal Audit partnered to draft current state documentation
  - Baker Tilly performed a gap analysis of current state against Uniform Guidance
  - Baker Tilly coordinated with Sponsored Research and Internal Audit to develop a road map to compliance
- Timeline: One year
- Challenges: Lack of resources, short term focused needs, lack of comprehensive approach
- Outcome: Compliance with UG in the short term; a partnered approach to internal controls review and enhancement in the long term
CASE STUDY #3

- Champion: COSO Steering Committee (Controller’s Office, Pre Award, Post Award, Internal Audit)
- Format:
  - One set of documented Entity Level Controls
  - Control Activities- process narrative, risks and controls matrix, and test plans with testing outcomes for each of:
    - 16 sponsored programs processes
    - 24 financial reporting processes
  - One set of repeatable program protocols
- Approach:
  - Phase I
  - Phase II
  - Sustainability Phase
CASE STUDY #3, cont.

<table>
<thead>
<tr>
<th>PHASE I</th>
<th>PHASE II</th>
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<tbody>
<tr>
<td><strong>Document Control Activities</strong> for select business processes (Process Narrative and Risks and Controls Matrix [RCM]):**</td>
<td><strong>Entity Level Controls</strong></td>
</tr>
<tr>
<td>• PTA Setup and Maintenance                                           • ITGCs</td>
<td></td>
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<tr>
<td>• Labor Charging (Payroll, Labor Distribution, PI Annual Certification)</td>
<td>• Safeguard PII and Sensitive Information</td>
</tr>
<tr>
<td>• Procurement-to-Payment</td>
<td>• Indirect Cost Pools</td>
</tr>
<tr>
<td>• Cost Transfers (ijournals and Labor Distribution Adjustments)</td>
<td>• Financial Aid</td>
</tr>
<tr>
<td><strong>Coordinate Review and Vetting Process</strong></td>
<td>• Coordination with Internal Controls over Financial Reporting</td>
</tr>
<tr>
<td>of Controls Documentation</td>
<td>• Sustainability Framework for COSO Internal Controls</td>
</tr>
<tr>
<td><strong>Develop Controls Review Plan</strong></td>
<td></td>
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<td>(Stanford Internal Audit Services to perform testing)</td>
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CASE STUDY #3, cont.

- Timeline: 18 months for documentation and initial testing; program will be ongoing
- Challenges: Coordination across groups, management buy-in from specific areas
- Outcome: Ongoing COSO program, comprehensive approach across sponsored programs and financial reporting, better communication across groups... and compliance!
BEYOND COMPLIANCE: IMPLEMENTING COSO IN HIGHER EDUCATION INSTITUTIONS

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