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About Navigant

Navigant Consulting, Inc. (NYSE: NCI) is a specialized, global professional services firm that helps clients take control of their future. Navigant's professionals apply deep industry knowledge, substantive technical expertise, and an enterprising approach to help clients build, manage and/or protect their business interests. With a focus on markets and clients facing transformational change and significant regulatory or legal pressures, the Firm primarily serves clients in the healthcare, energy and financial services industries. Across a range of advisory, consulting, outsourcing, and technology/analytics services, Navigant's practitioners bring sharp insight that pinpoints opportunities and delivers powerful results. More information about Navigant can be found at navigant.com.

IMPACT OF THE UNIFORM GUIDANCE ON INSTITUTIONAL POLICIES & PROCEDURES

EFFECTIVELY ASSESSING YOUR INSTITUTION'S INTERNAL CONTROLS

BACKGROUND

In 1992, the Committee of Sponsoring Organizations (COSO) changed the way that auditors would look at Internal Controls after several significant audit failures that occurred in the 1980's. As part of the issuance of the Office of Management & Budget's (OMB's) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"), Internal Controls became a significant part of this Policy Statement in an effort to reduce the risk of waste, fraud and abuse in the overall stewardship requirements of Federal funding.

Internal controls are identified as processes effected by an Institution's management and their overall personnel. These processes are designated to provide reasonable assurance regarding effectiveness and efficiency of operations, reliability of financial representation and overall institution-wide compliance with laws and regulations. Internal controls not only apply to "Institutions of Higher Education," but also to State, Federal and the corporate business communities, as well. Given the importance and focus in this Policy Statement, it is predicted that significant internal audits and independent audit will be performed for Internal Controls compliance in "all" areas of your institution.

There are five major components relative to Internal Controls:

1. The "control" environment which includes the integrity, ethical values and the overall competence of an institutions management and staff
2. Risk assessments
3. Control activities
4. Information and communications that includes the methodology for the identification, capture and communication of pertinent information in a timeframe that enables employees of your institution to carry out their responsibilities.
5. Monitoring

All five of the aforementioned components combine to form an integrated system with controls. It is important that all five components be present and functioning in order to meet COSO compliance requirements.

WHAT THIS MEANS TO YOU

If proper Internal Controls are not in place, your institution will run the risk of being non-compliant and may face the following additional risks:

- Equipment not identified in the inventory process, but still “on your books” (unrecorded retirements)
- Equipment identified in the inventory process, but not tagged or identified within your inventory system (unrecorded additions)
- Lack of support or inaccurate representation of your overall asset base, resulting in an audit finding or, in the event of an insurance loss, lack of proof of loss for any potential insurance claims
- Reduced value of the inventory system which effects depreciation, which impacts the [F&A] cost rates, and might result in an internal/independent or Federal audit finding
- Equipment inventory overstated would result in potential over insurance and/or potential independent or internal audit finding

INTERNAL CONTROLS FOR PROPERTY AND EQUIPMENT

Property and Equipment asset classifications represent a significant investment by your institution for its overall day to day operations and represents a major portion of your Institutions balance sheet. There are several requirements for financial reporting, insurance, Facilities & Administrative (F&A) Cost Reporting, OMB’s Uniform Guidance, stewardship requirements and the like that dictate that proper Internal Controls are indeed in place and working at your Institution. Some examples of effective Internal Controls for Property and Equipment include:

- Properly identifying moveable equipment.
- Properly labeling equipment with an asset tag (Barcode/RFID).
- Using proper asset classification codes.
- Notifying your Property Control department/manager of equipment acquired other than through the standard University procedures.
- Alerting Property Control of equipment traded/exchanged, transferred, lost, stolen, salvaged, or scrapped.
- Conducting periodic inventories annually/biannually depending upon your institution’s policies.

To determine if your higher education organization has effective Internal Controls, Navigant recommends the following eight steps in assessing your institution's Internal Controls for property and equipment:

1. Design a questionnaire comprising approximately 25 to 30 questions to address the basics with the five control components.
2. Conduct interviews either as a "focus group" or "individually" depending upon the size of your departments.
3. Summarize the results based upon the interviews and identify strengths and weaknesses in each of the five control components.
4. Determine if your department managers share the same belief that internal controls are important and active in their respective areas. If so, your risk should not be as great. If they do not share in that belief, your risk may rise significantly.
5. Make your institution's executive management team aware of any reportable conditions or concerns identified in the assessment process.
6. Validate your internal assessment/review processes in the event of probable audit review.
7. Document your final assessment and identify your institutions strengths and weaknesses and document corrective action plan(s), as and if necessary
8. Document your new or updated policies for implementing periodic and consistent monitoring plans to ensure compliance.

How do you know where you stand?

You may consider an independent audit review to determine if your institution's equipment purchases conform to your institution's policies for purchasing, inventory control, property transfers and dispositions, and that they are in place and working. A review should also include your capitalization threshold guidance and conformance, proper asset locational, and classification coding and tracking. Taking these measures will allow you to know the details and logistics of what you have, as well as the financial implications and ways in which you can improve. Such an understanding of your equipment purchases is of paramount importance to your institution and its management.

CONCLUSION

If your institution does not have solid Internal Controls for its real, personal and intellectual/intangible assets, it can run the risk of non-compliance and inefficient operations. Institutions must identify the gaps and determine how to close those gaps.

To effectively assess your organization's Internal Controls for the reporting of your real, personal and intellectual/intangible assets, please do not hesitate to contact Navigant Consulting, Inc. for more information concerning our professional service offerings.

