

## **Fiscal Close Certification Letter Questions and Answers (Q&A)**

The following questions and answers relate to the “fiscal closing certifications.”

1) *What does the term “to the best of my knowledge and belief” mean in terms of the scope and level of detail of information that a dean could reasonably be expected to possess when signing his/her certification?*

The use of the term, “to the best of my knowledge and belief,” recognizes it is impossible for any person to legitimately provide absolute assurances or guarantees. Individuals can only make assertions on what they know or have knowledge of, not to what they don’t know. This terminology is intended to provide a reasonable and rational framework for providing the required fiscal closing certifications to the Campus Controller and Vice Chancellor of Administration.

Administrators manage their departments in many different ways and can have varying tolerances for levels of detail and day-to-day involvement. This terminology is designed to respect those differences without attempting to change the manner in which different administrators may carry out their responsibilities, or to require a level of managerial involvement that is inconsistent with their typical managerial style.

It is certainly appropriate for administrators to acknowledge the general administrative responsibilities that come with the positions they hold as they relate to financial management. They can also affirm they aren’t aware of inappropriately recorded or unrecorded transactions, communications from regulatory agencies regarding noncompliance, fraud that hasn’t been reported to the appropriate authorities, funds that are being used in a noncompliant manner, etc. However, if a dean or department head is aware of any situations in these particular areas that the Campus Controller or Vice Chancellor of Administration should be aware of, he/she has a responsibility to let them know as soon as possible so they can then evaluate that information within the context of their responsibilities for accurate financial reporting and the management representations they must make to the external auditors.

2) *What is the materiality threshold for the deans?*

The University’s policy must be that *all* transactions are required to be properly recorded. The policy isn’t that “most are properly recorded”, or the “large transactions are properly recorded.” All are expected to be properly recorded and, “to the best of their knowledge and belief,” deans and department heads should ensure that all transactions are recorded properly, incorporating any specific guidance received from the Campus Controller.

To answer the question directly, there is no bright line “materiality threshold” for deans or department heads as it may relate to the activities discussed in the fiscal closing certification letter. In a decentralized environment, judgment decisions related to what is, or is not, material must not be made at a department level. Judgment decisions with respect to individual transactions may seem to be immaterial, but in the aggregate may become material. *In general, however, items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.* The Campus Controller may communicate certain materiality thresholds for various transactions in conjunction with fiscal closing instructions. The dean or department head must comply with this guidance.

Notwithstanding the above, in a practical sense, given the millions of transactions in the year, it is recognized that it is not possible for every transaction to be recorded properly. So the certification doesn’t imply that the dean or department head is providing absolute assurance that all transactions in their area, regardless of dollar amount, are properly recorded. They are only asserting that “to the best of their knowledge and belief,” they aren’t aware of any transaction that isn’t properly recorded, regardless of the dollar amount, or if they are aware of a transaction that isn’t properly recorded, they have disclosed it to the Campus Controller for evaluation.

We are not asking for information on items such as expense reports that relate to business conducted in June, yet are completed and processed in July. We are, however, asking whether significant revenue has not been recorded, such as grant or auxiliary enterprise revenue, large donations, etc. or whether large expenses that were incurred in the current fiscal year were mistakenly processed and recorded in the next fiscal year.

There is also no bright line “materiality threshold” with respect to instances of communications from regulatory agencies regarding noncompliance, fraud that hasn’t been reported to the appropriate authorities, funds that are being used in a noncompliant manner, etc. The Campus Controller (and Campus Counsel or the Office of the General Counsel) must be made aware of any such circumstances so they can then evaluate that information within the context of their responsibilities for accurate financial reporting and the management representations they must make to the external auditors.

*3) Is there a working definition for determining what is required to be accrued?*

Income is reported to the extent it is earned, regardless of when the cash is received. This may require either an accrual or deferral. Similarly, expenses are reported to the extent they are incurred during the year, regardless of when invoiced or paid. This also may require accrual or deferral of expenses. The Campus Controller provides guidance through fiscal closing instructions to departments specifying the procedures to be followed on each campus to ensure transactions are reported on an accrual basis as of June 30.

*4) Must disclosure always be made in writing to the campus controller, or can it be made to the dean’s own financial officer, campus legal counsel or others?*

Disclosures must be made in writing to the Campus Controller or Vice Chancellor of Administration.

The Campus Controller and the Vice Chancellor of Administration must be able to evaluate any exceptions that are brought to their attention in conjunction with the fiscal closing certification letter process. This is a form of due diligence they are performing to evaluate the integrity of the fiscal closing process, the accuracy of the reported financial information contained in the general ledger and the adequacy of disclosures associated with the preparation of the University’s financial statements. This due diligence must be performed to support the assertions contained in the overall campus Management Representation Letter signed by the Chancellors, Executive Vice Chancellors, Vice Chancellors-Administration and Controllers and provided to the external auditors.

*5) How do deans treat their knowledge of central control weakness in their certifications if the deans have received a presentation disclosing central internal control weaknesses and plans for addressing them?*

The deans and department heads are providing assertions to the Campus Controller and Vice Chancellor of Administration solely related to the business practices and systems developed and used in their specific school/college/administrative unit, not to central processes. Responsibility with respect to control systems developed and maintained elsewhere, such as campus-wide systems, extend only to ensuring that the systems are used appropriately.

However, if the deans or department heads feel compelled to sign the fiscal closing certification letter, subject to the identified control weaknesses in campus-wide systems (such as accounts payable, for example) that have been discussed with them in a campus presentation, that would be reasonable.

The Campus Controller and Vice Chancellor of Administration will evaluate that exception in their consideration of the assertions they make in the campus Management Representation Letter.

*6) What is a dean’s personal and professional exposure if he/she signs the certification letter and then the PwC audit team turns up a control deficiency in his/her school?*

As mentioned above, assertions can only be made “to the best of their knowledge and belief.” In addition, the dean and department head fiscal closing certification letter is addressed to the Campus Controller, not PwC.

We believe that there is no personal or professional exposure on the part of a dean or department head so long as the certification letter is signed with a good faith belief that the information provided is accurate. In the private sector, company executives have been held only to a standard of exposure where their representations were knowingly and intentionally untrue, or were reckless (reckless means beyond simple or even inexcusable neglect—an extreme departure from the standard of ordinary care). Cases holding company executives liable almost always involve intentional fraud or other deliberate illegal conduct.

The fiscal closing certification letter is intended to provide only reasonable assurance to the Campus Controller and Vice Chancellor of Administration that transactions have been properly recorded and the appropriate disclosures have been made, subject to any exceptions noted by the dean or department head. Absolute assurance by the dean or department head is not attainable, nor is it being requested in any covert or overt fashion. The dean or department head is not insuring anything, other than his or her good faith belief in the matters covered by the letter. The signed fiscal closing certification letter does not constitute a guarantee.

If there are exceptions noted, it is the responsibility of the Campus Controller and Vice Chancellor of Administration to evaluate the nature of the exception in order to judgmentally determine the overall effect on the integrity of the fiscal closing process, the accuracy of the reported financial information contained in the general ledger or the adequacy of disclosures associated with the preparation of the University's financial statements.

*7) Is there a standard of due diligence that deans should meet to sign the letter?*

At this point, such a standard has not been set because this practice is new. Caselaw in the private sector suggests that responsible individuals need only check matters that are easily verifiable and investigate matters within their actual knowledge. We suggest that you discuss this issue with the campus controller.

A best practice we are comfortable recommending was initiated by several deans last year who met with line staff directly responsible for day-to-day operation of financial and accounting systems and went over the letter with them, requesting to be advised that any problems had been brought to the attention of appropriate Campus Managers.

*8) What happens if a dean refuses to sign his/her certification letter or signs it with certain qualifications?*

These are two distinctly different circumstances and the ramifications are very different.

*Signs with exceptions or qualifications* – As noted above, if a dean or department head signs the fiscal closing certification letter, subject to certain specific exceptions or qualifications, it is the responsibility of the Campus Controller and Vice Chancellor of Administration to evaluate the nature of the exception in order to determine the overall effect on the integrity of the fiscal closing process, the accuracy of the reported financial information contained in the general ledger or the adequacy of disclosures associated with the preparation of the University's financial statements.

After a discussion with the dean or department head to ensure proper understanding of the exception, the evaluation may result in a conclusion that no additional audit work is required. On the other hand, the exception may result in a decision to expand the scope of audit work performed in a particular area. The additional procedures may be undertaken by department staff, controller's staff, internal audit staff or the external auditor.

*Refusal to sign* – If a dean or department head refuses to sign the fiscal closing certification letter, the Campus Controller and Vice Chancellor of Administration must evaluate this lack of response and presume the underlying rationale is indicative of systemic exception in the specific school/college/ administrative department or unit.

After a discussion with the dean or department head, the evaluation may result in a conclusion that no additional audit work is required. On the other hand, the conclusion may be to expand the scope of audit

work performed in a particular area. The additional procedures may be undertaken by department staff, controller's staff, internal audit staff or the external auditor.

The lack of a response should be brought to the Chancellor's attention. The "tone at the top" set by campus management is obviously extremely important in terms of exhibiting the appropriate leadership in the areas of responsibility and accountability.<sup>1</sup>

9) *Who drafted and approved the current dean's certification letter?*

As outlined above, the fiscal closing certification letter is a component of a broader program to enhance the integrity in the fiscal closing process, ensure disclosures are adequate and provide an avenue for all relevant issues known by campus management to be considered by those responsible for signing the overall campus Management Representation Letter.

The overall program has been discussed over the past year and a half with the Regents Committee on Audit, Chancellors, Executive Vice Chancellors, Vice Chancellors of Administration and Campus Controllers. At the Chancellors' request, the program elements are consistent across all campuses. The Campus Controllers and UCOP Financial Management were given the responsibility for implementing this program.

---

<sup>1</sup> See, ***University of California Statement of Ethical Values and Standards of Ethical Conduct*** at [http://www.ucop.edu/ucophome/coordrev/policy/Stmt\\_Std\\_Ethics.pdf](http://www.ucop.edu/ucophome/coordrev/policy/Stmt_Std_Ethics.pdf).