Fiscal Close Certification Letters – Certifications Required by Deans and Senior Campus Management

Purpose

Each year the University of California prepares financial statements which represent the financial position of the institution. The campuses and the Office of the President provide important financial information for incorporation into the University’s financial statements and annual financial report. In addition to providing information to a variety of users for economic decisions, the statements fulfill an important responsibility of the University to the citizens of California as a State institution.

In common with many other institutes of higher education and other nonprofit entities, the University has adopted best practices relating to documenting management representations assuring the accuracy of its financial statements. As part of the fiscal closing process, the Chancellor, Vice Chancellor-Administration & Finance, Associate Vice Chancellor and Chief Financial Officer and Controller sign a campus Management Representation Letter that is provided to the Office of the President. This letter certifies that the campus information which is incorporated into the financial statements and report is a fair representation conforming to generally accepted accounting principles.

The decentralized nature of the University of California, Berkeley necessitates that the Chancellor, VC Administration & Finance, Associate Vice Chancellor and Chief Financial Officer and Controller obtain written confirmations from Deans and other campus senior management regarding their financial responsibilities for the campus information which is incorporated into the annual financial statements. This is accomplished through the Fiscal Close Certification Letter.

The Campus Management Representation Letters and supporting certifications are then used to provide assurance for the assertions made in the overall University of California Management Representation Letter.

Who Must Certify

Campus senior management (Vice Chancellors, Vice Provosts, and Deans) are required to complete a Fiscal Close Certification Letter annually.
Text of the Fiscal Close Certification Letter

The following Fiscal Close Certification Letter is used across all campuses.

To Campus Controller:

The following representations are being provided to you in connection with the University of California, (name of campus) fiscal-year-end close process and audit of the consolidated financial statements of the University of California, as of June 30, 20XX.

Except as otherwise disclosed in writing to the Campus Controller, I acknowledge my responsibility for the following representations as they relate to (School/College/Administrative Unit):

1. I am responsible for the application of University policies and procedures to ensure efficient and effective use of resources and to prevent and detect fraud in the operation of (School/College/Administrative Unit).

2. I am responsible for establishing and maintaining an effective system of internal controls for business practices and systems developed and used in (School/College/Administrative Unit). I am also responsible for ensuring appropriate use of control processes that are developed and maintained elsewhere but that are performed to (School/College/Administrative Unit).

In addition, except as otherwise disclosed in writing to the Campus Controller, I confirm to the best of my knowledge and belief, the following representations as they relate to (School/College/Administrative Unit):

3. There are no material transactions, accounts or agreements, including the accrual of liabilities, that have not been properly recorded in the campus accounting records.

   In general, 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.

4. All communications from regulatory agencies, donors, or other entities concerning noncompliance with laws, regulations, applicable guidelines, directives or with an appropriate standard of care have been disclosed in writing to (Campus Controller).

5. All known allegations of fraud or suspected fraud, particularly with regard to management or staff with internal control responsibilities, have been disclosed to the appropriate campus official or workgroup.

6. (School/College/Administrative Unit) manages its funds in compliance with laws, regulations, provisions of contract and grant agreements, and donor restrictions that apply to these funds.

Sincerely,

Vice Chancellor, Vice Provost, Dean

Date
### Campus Process

<table>
<thead>
<tr>
<th>Month</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td><strong>Early communication</strong> is sent to existing deans and senior management notifying each of the upcoming fiscal close certification deadline.</td>
</tr>
<tr>
<td>April</td>
<td><strong>Outreach to new deans</strong> in the form of email introductions explaining the fiscal close certification process and propose meeting including an onsite visit with the Financial Controls Coordinator.</td>
</tr>
<tr>
<td>August</td>
<td><strong>Fiscal Close Certification Letters</strong> are sent via email by the Financial Controls Coordinator – Financial Accounting and Controls to senior management.</td>
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<tr>
<td>August</td>
<td><strong>Fiscal Close Certification Letters</strong> (hard copy with signature) are due from senior management to the Controller’s Office. Send to: Jennifer Lim Controller’s Office 2195 Hearst Avenue, Room 130 Mail Code 1108</td>
</tr>
<tr>
<td>September</td>
<td><strong>Management Representation Letter</strong> signed by Chancellor, VC Administration &amp; Finance, Associate Vice Chancellor and Chief Financial Officer and Controller.</td>
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<tr>
<td>September</td>
<td>Certification letters forwarded to the Office of the President.</td>
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### Frequently Asked Questions

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 do not know. This terminology is intended to provide a reasonable and rational framework for providing the required fiscal close certifications to the signers of the campus Management Representation Letter.

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 - Administration & Finance 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 Office of the President.

2) What is a dean’s personal and professional exposure if he/she signs the certification letter and then the external audit team deems 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 close certification letter is addressed to the Campus Controller, not the University’s external auditors. The University believes 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 Associate Vice Chancellor, Finance and Chief Financial Officer 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 close certification letter does not constitute complete assurance.

If there are exceptions noted, it is the responsibility of the Campus Controller 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.

3) 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. Case law 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.

4) What is the materiality threshold for the deans’ certifications?

The University’s policy must be that all transactions are required to be properly recorded. The policy does not state that most are properly recorded or that large transactions are properly recorded. All transactions 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 instruction received from the Campus Controller.

To address the question directly, there is no line materiality threshold for deans or department heads as it may relate to the activities discussed in the fiscal close 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, make 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 instruction.

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. The certification does not 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 are not aware of any transaction that is not properly recorded, regardless of the dollar amount, or if they are aware of a transaction that is not 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 no materiality threshold with respect to instances of communications from regulatory agencies regarding noncompliance, fraud that has not been reported to the appropriate authorities and funds that are being used in a noncompliant manner. The Campus Controller must be made aware of any such circumstances so they can evaluate that information within the context of their responsibilities for accurate financial reporting and the management representations they are required to communicate to the external auditors.
5) Is there a working definition for determining what is required to be accrued or deferred?

Expenses are reported to the extent they are incurred during the year, regardless of when they are invoiced or paid. An entry is made in the accounting records to reflect the cost of the goods or services that were incurred during the year but the cost has not yet been paid. This process of recording expenses incurred that have not yet been paid is known as accruing expenses.

In some cases, expenses need to be paid in advance of incurring the services or receiving the goods, in these cases an entry is made in the accounting records to defer the expense, this is known as a deferral of expense. Similarly, income is reported to the extent it is earned, regardless of when the cash is received. This also may require accrual or deferral of income.

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.

6) What is a contingent liability, and should it be recorded in the general ledger at fiscal year end?

A contingent liability refers to a potential financial obligation that may be incurred depending on the outcome of a future event. A contingent liability is one where the outcome of an existing situation is uncertain, and this uncertainty will be resolved by a future event. A contingent liability is usually recorded in the general ledger only if the contingency is probable (the future event or events are likely to occur) and the amount of the liability may be reasonably estimated.

Professional judgment is required to classify the likelihood of the future events occurring and it will estimate amount. All relevant information should be provided to the Controller’s Office so it can determine the proper financial treatment.

Examples of possible contingent liabilities include:
   a) claims and assessments including items arising from audits by cognizant federal and state agencies;
   b) obligations under financial guarantees, such as guarantees for the loan obligations of students;
   c) litigation settlements

7) 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.

The Campus Controller must be able to evaluate any exceptions that are brought to his/her attention in conjunction with the fiscal close certification letter process. This step is a form of due diligence he/she performs 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 Chancellor, Vice Chancellor-Administration & Finance, Associate Vice Chancellor and Chief Financial Officer and Controller and ultimately provided to the Office of the President.

8) 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-Administration & Finance 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-Administration & Finance will evaluate that exception in their consideration of the assertions they make in the campus Management Representation Letter.

9) What are related party transactions, and should they be disclosed to the Controller’s Office?

Transactions with related parties commonly occur in the normal course of the campus’ business activities. A related party is one that can significantly influence the management or operating policies of another entity or that has an ownership interest in another entity and can significantly influence the other to the extent that it might be prevented from fully pursuing its own separate interests.

Related parties include:
- Affiliates of the University of California, such as the University of California Berkeley Foundation, Lawrence Berkeley National Laboratory, Berkeley Education Alliance for Research in Singapore Limited and Center for Executive Education
- Trusts for the benefit of employees that are managed by or under trusteeship of management, such as the University of California Retirement System
- Members of the Regents of the University of California, senior management, and their immediate family members.

The University of California financial statements must include disclosures of material related party transactions other than items in the ordinary course of business. Therefore, unordinary related party transactions should be disclosed and supporting documentation provided to the Controller’s Office for evaluation.
10) 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. Case law 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.

11) 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 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 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.\(^1\)
12) How can a dean certify if he/she was appointed mid-year and was not responsible for the entire fiscal year?

Certifications cover an entire fiscal year (from July 1 to June 30). In addition, any events that occur between the end of the fiscal year (June 30) through the signing of the certification letter in August that relate to fiscal year being certified should be disclosed. Hence, deans and department heads will certify and have disclosed exceptions for a 15-month period for each fiscal year.

Regardless of the effective date of their appointment, a dean or senior manager should certify for the period in question to the best of —my knowledge and belief— based on their discussion with their staff, former dean, other administrators, and their current awareness of situations that require disclosure.

For example: in an August meeting, a new dean hired on July 1st becomes aware of a litigation settlement that relates to an event that occurred in the college in December of the fiscal year in question (i.e. prior to the arrival of the new dean.) The new dean should disclose this event in the current certification process for the prior fiscal year, even though the dean was not in his/her current position when the event occurred.

Contact

Questions should be directed to:
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Procedure Issue Dates

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