

Fiscal Close Certification Letters – Certifications Required by Deans, Division Finance Leaders 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, Executive Vice Chancellor and Provost, Vice Chancellor of Finance and Chief Financial Officer, and Controller sign a campus **Fiscal Close Certification 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, Executive Vice Chancellor and Provost, VC Finance and Chief Financial Officer, and Controller obtain written confirmations from Deans, Division Finance Leaders 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 **Fiscal Close Certification Letter** and supporting Deans/DFLs 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, Deans and Division Finance Leaders) are required to complete a **Fiscal Close Certification Letter** annually.

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 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, we confirm to the best of our knowledge and belief, the following representations as they relate to (School/College/Administrative Unit):

1. We are responsible for the application of University policies and procedures to ensure the efficient and effective use of resources and to prevent and detect fraud in the areas in which we are involved.
2. There are no material transactions 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.
3. 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 the Campus Controller.
4. All known allegations of fraud or suspected fraud have been disclosed to the appropriate campus official or workgroup.
5. The areas in which we are involved manage 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

Division Finance Leader

Date

**Campus
Process**

<i>May</i>	Early communication is sent to existing deans and senior management notifying each of the upcoming fiscal close certification deadline.
<i>August</i>	Fiscal Close Certification Letters are sent via email by Financial Controls Coordinator – Financial Accounting and Controls to deans and senior management.
<i>August</i>	Fiscal Close Certification Letters (soft copy with signature or DocuSign) are due from deans and senior management to the Controller’s Office. Signed letters are to be uploaded into Division’s Box file folder by DFLs.
<i>September</i>	Campus Fiscal Close Certification Letter signed by Chancellor, Executive Vice Chancellor and Provost, VC Finance and Chief Financial Officer, and Controller.
<i>September</i>	Signed Campus Fiscal Close Certification Letter forwarded to the Office of the President.

Questions and Answers

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.

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 should be aware of, he/she has a responsibility to let the Controller know as soon as possible so he can then evaluate that information within the context of his responsibilities for accurate financial reporting and the management representations he must make to the external auditors.

- 2) *What is the materiality threshold for the department heads?*

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.

The Campus Controller must be able to evaluate any exceptions that are brought to his attention in conjunction with the fiscal closing certification letter process. This is a form of due diligence he is 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 and department heads treat their knowledge of central control weakness in their certifications if the deans and department heads 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 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 will evaluate that exception in his consideration of the assertions he makes 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 reportable condition 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 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 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 department heads and 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 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

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 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.

¹ See, *University of California Statement of Ethical Values and Standards of Ethical Conduct* at https://www.ucop.edu/ethics-compliance-audit-services/_files/stmt-stds-ethics.pdf.