



Welcome

The purpose of this Briefing



Communicating Results – communications must include the engagement's objectives and scope

# COSO Internal Control Integrated Framework

## 17 Principles

By D. Randy Pearman, CPA, MPA

The Committee of Sponsoring Organizations (COSO) of the Treadwell Commission is a voluntary private-sector organization dedicated to providing thought leadership to executive management and governance entities. COSO consults on critical aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting.

The COSO consists of five supporting organizations, including the Institute of Management Accountants (IMA), the American Accounting Association (AAA), and the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), and Financial Executives International (FEI).

In the last issue of the briefing, I discussed the changes in the COSO framework. The updated framework provides attributes, explanations, and examples of how the 17 principles fit into the control component. In this article, I will define and describe the 17 principles and how they work in consonance to effect change.

The COSO cube has long been used as an illustration tool for demonstrating the relationship between the control components (listed on the front of the cube), the organizational objectives (listed on the top of the cube), and the organizational units (listed on the side of the cube). An examination of the updated cube versus the original cube reveals that the primary change is reflected in the organizational objectives.

“Financial Reporting” has now become simply “Reporting.” This change in illustration is meant to reflect the broadening of the reporting category to include non-financial reporting, both internal and external. This change should make the framework more flexible and useful to users.

### Value proposition

COSO asserts the following value proposition.

“The changes will enhance performance with greater agility, confidence and clarity. The updated Internal Control Integrated Framework (ICIF) better supports efforts to design and adapt systems of internal control.”

One might easily see how the broadening of the reporting category would lead to greater agility and the codification of the seventeen principles would offer greater confidence and clarity.

### COSO 17 Principles for Internal Control Systems

#### Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority, and responsibility
4. Demonstrates commitment to competence
5. Establishes accountability

#### Risk Assessment

6. Specifies relevant objectives
7. Identifies and assesses risk
8. Identifies and assesses significant changes
9. Assesses fraud risk

#### Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys policies and procedures

#### Information and Communication

13. Generates relevant information
14. Communicates internally
15. Communicates externally

#### Monitoring Activities

16. Conducts ongoing and separate evaluations
17. Evaluates and communicates deficiencies

### Benefits

In addition, COSO claims the following benefits will accrue to users of the updated framework.

- Improvement of governance
- Expansion of the use beyond financial reporting
- Improvement in the quality of risk assessment
- Strengthening of anti-fraud efforts
- Adaption of controls to changing business needs
- Greater applicability for various business models

Like the value assertion it is easy to believe that the updated framework will produce the benefits COSO claims that it will. Expansion of the reporting scope of the framework is an obvious benefit since the updated framework explicitly states that it will occur. Other benefits such as "Improvement of governance" and "Improvement in the quality of risk assessment" can be inferred from the codification of the principles. The true test of benefits will be the actual use of the updated framework. The skill and commitment of the users will no doubt play a role in the number and type of benefits manifested from the updated framework.

### Expected Finalization

COSO expects to complete the final version of the updated framework sometime in the first quarter of calendar year 2013. A press release posted on the COSO web site stated that the original final release date was expected to occur in the fall of 2012. The reason for the push-back in release time was unclear and it is by no means certain that another delay will not occur. The University System of Georgia colleges and universities operate on a fiscal year that runs from July through June.

If the final release occurs in early January, the fiscal year will be half over. If the release occurs in late March, the fiscal year will be three quarters complete. At that juncture, it will likely be impractical for USG schools to take any significant action on the updated ICIF. It might be more appropriate for USG audit shops to initiate conversations regarding the updated ICIF. These conversations could begin among the audit group itself and naturally expand to interested members of the campus community. These members might include the executive staff (President, Vice President, Provost, etc.), any risk management group on campus, any legal officers on campus, and any persons or offices that might be involved in control establishment or risk mitigation. Any action these groups deem appropriate would most likely begin no earlier than fiscal 2014.

### Further information

Don't take this brief article as the final word on this matter. Arm yourself with information and knowledge. To get this information go to [www.coso.org](http://www.coso.org). There you will find the draft version of the new framework.

## Extra Compensation Related to Federal Grants

By Sandra Evans and Rob Roy

In the previous publication of this Briefing, we discussed the topic of Internal Control Issues Concerning Grant Awards and provided several examples. In this issue, we will discuss another area of Internal Control, the payment of extra compensation related to federal grants.

Federal agency regulations control the calculation and characterization of grant related billing. The following discussion provides guidance; however, the final authorities are the grant and contract documents, granting agency policies and procedures, and Circulars for Educational and Non-Profit Institutions 2CFR, part 220 (OMB Circular A-21). Federal guidance is given on additional pay for Faculty researchers. No guidance is given on additional pay for professional staff or administrative staff. As such, this should be addressed on a case by case basis paying close attention to the terms, conditions and policies relevant to the sponsored project and those of the BOR. Also please be aware that overtime pay is appropriate for paying non-exempt employees although the cost of the overtime pay must be allocated proportionately across all accounts paying the salary for a given pay period.

The following authoritative sources are summarized related to the issue of Extra Compensation:

1. BOR Policy 8.3.12.4 addresses Extra Compensation as it relates to Faculty:
  - a. Research and Saturday classes will ordinarily be carried by USG personnel as part of their normal work load without additional financial compensation. Adequate allowance in time assigned for the extra

duties shall be made by a proportionate decrease in the teaching load;

- b. Extra compensation may be paid, however, when all four of the following conditions exist: (1) The work is carried in addition to a normal full load, (2) No qualified person is available to carry the work as part of his/her normal load, (3) the work produces sufficient income to be self-supporting, (4) The additional duties are not so heavy as to interfere with the performance of regular duties.
  - c. Although not stated, it should be understood that extra compensation allowed under state regulations and BOR policy would be typically funded by State appropriations or auxiliary funds. Institutions should follow federal, state, BOR and institutional terms, conditions, policies and procedures, and advanced approvals applicable to the sponsored project concerning use of federal funds for extra compensation.
2. USG Business Procedures Manual, Payroll Section 5.3.2 states: "Extra compensation may be paid to employees for tasks performed after normal business hours by be Nr

the criteria listed below (Criteria also can be found in the Official Code of Georgia Annotated Section 45-10-25): Chaplain, Fireman, Dentist, Certified or Manual Interpreter for Deaf Persons, Registered Nurse, Licensed Practical Nurse, Psychologist, Teacher or instructor of an evening or night course or program, Professional holding a doctorate or master's degree from an accredited college or university, or Part-time employee.

d. An employee meeting all three criteria listed above may be paid extra compensation for a task for another department during normal job hours if the task is not part of the employee's normal job responsibilities, and the employee takes annual leave for the portion of time used for the task receiving extra compensation.

### 3. Federal Regulations

a. Only address extra compensation for faculty researchers.

b. NSF11-1 January 2011, Chapter II, C. g.(i) (a) states NSF regards research as one of the normal functions of faculty members at institutions of higher education... NSF award funds may not be used to augment the total salary or salary rate of faculty members during the period covered by the term of faculty appointment...".

c. OMB Circular A-21 J.10.d (1): "Charges for work performed on sponsored agreements ... are allowable at the base salary rate. In no event do charges to sponsored agreements ... exceed the proportionate share of the base salary for that period..."

d. Exceptions to the process in b. above are rates should be included: If faculty members with sponsored support cannot be released from teaching, but still perform grant-related research, the situation should be documented, notification sent to the granting agency or prime award recipient (in the case of sub-recipient contracts) and approval received in advance of paying extra compensation.

For Faculty research staff with nine or ten month contracts, summer semester grant effort can result in extra compensation known as summer salary, included in the approved grant budget.

a. Summer salary calculation involves dividing the contracted base salary by the number of teaching months, usually nine, and multiplying the result by the grant effort percentage times the number of summer months when effort occurred. (Example: For 25 % effort over a period of two summer months: \$72,000 base salary divided by 9 = \$8,000/month times 2 months times 25% effort = \$4,000 in total summer salary).

b. National Science Foundation (NSF) restricts the summer salary from grants to two months or 2/9 of the annual contracted pay (NSF Grants Policy Manual, Section 611 1.b.2). HHS, Department of Education, and Department of Energy do not have this restriction.

c. Federal regulations specifically prohibit effort "worked" during Fall or Spring semester and "reported" in the Summer.

To summarize: Federal grant funds normally should not be used as a source for additional pay but instead are used to "buyout" the effort of faculty researchers, i.e. release time. However, unique circumstances as in the case of faculty who cannot be released from their teaching responsibilities are eligible for extra compensation if permitted by institutional policy and procedures, allowed by the contract, included in the budget, and if approved in advance by the granting agency.



In the event an employee is a research subject, the employee can be compensated for time as a participant from federal funds. USG Business Procedures Manual 5.3.2 states: Under no circumstances should an employee receive extra compensation for a task while receiving normal compensation for the same period.” Thus, if the employee participates as a research subject during normal work hours, the employee must take leave time in order to receive the extra compensation.

Penalties may be imposed for falsely certifying an effort report or incorrectly billing a granting agency. Both the institution and the certifier may be charged with violations of law.

Citations:

Office of Management & Budget (OMB) Circular A-21 Section J.10 (2 CFR 220)

NSF 11-1 January 2011, Chapter II – Proposal Preparation Instructions – C. Proposal Contents, 2.g.(i)(a)

USG Business Procedures Manual Section 5.3.2 Extra Compensation BOR Policy 8.3.12.4

Georgia Constitution Article III Section VI, Paragraph VI

NSF Grants Policy Manual, Section 611 1.b.2

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