BOARD OF REGENTS OF
THE UNIVERSITY SYSTEM OF GEORGIA

OFFICE OF INTERNAL AUDIT AND COMPLIANCE
270 WASHINGTON STREET, S.W.
ATLANTA, GEORGIA 30334

(404) 656-9439- PHONE
(404) 463-0699 - FAX
JOHN.FUCHKO@USG.EDU

May 17, 2010

Dr. Everette J. Freeman
President
Albany State University
504 College Drive
Albany, GA 31705

Dear Dr. Freeman:

I am extremely pleased to report that your institution's Fiscal Year 2009 management report was rated a "Code 1." This rating incorporated the ratings of individual audit findings or published comments to include 3 "Notable" issues. Your staff should be extremely pleased with their hard work and efforts that resulted in this rating. Additional background on the rating process is provided below.

The Georgia Department of Audits and Accounts (DOAA) conduct reviews of the annual financial report as produced by each USG institution. These reviews include full audits, management reports, and agreed-upon procedures reports. The final reports are distributed to institution management, System Office management, the Chancellor and members of the Board of Regents.

The Office of Internal Audit and Compliance reviews the DOAA reports in order to assess the institution's overall quality of internal control, the quality of financial reporting, compliance with laws, regulations, and policies, and other factors as reviewed by the DOAA. The specific factors considered in our assessment are outlined in the USG Business Procedures Manual Section 16.3.9 (enclosed). The internal audit review results in an overall audit rating ranging from a "Code 1" or "Excellent" rating to a "Code 5" or "Adverse" rating. Additionally, individual report issues are rated "Notable," "Significant," or "Major."

Ratings are shared with members of the Board of Regents, the Chancellor, and senior USG staff as a "tool to evaluate the performance of institutions in their financial reporting responsibilities" (BPM Section 16.3.9). Additionally, the Office of Internal Audit and Compliance tracks open audit issues until the institutions reports those issues as resolved. Specific instructions for reporting on open audit issues will be provided to all USG institutional auditors and Chief Business Officers.

Please feel free to contact me at 404-656-9439 or john.fuchko@usg.edu with any follow-up questions or concerns.

Sincerely,

John M. Fuchko, III
Chief Audit Officer and Associate Vice Chancellor

JMF/tp

Enclosure

cc: Regent Kessel Stelling, Jr., Chair, Committee on Internal Audit, Risk, and Compliance
Dr. Susan Herbst, Chief Academic Officer & Executive Vice Chancellor
Usha Ramachandran, Vice Chancellor for Fiscal Affairs, BOR
Larry Wakefield, Vice President for Fiscal Affairs
Carl Threatt, Jr., Audit Director

- Immediate corrective action required.

16.3.9 State Department of Audits and Accounts Report Ratings

The Associate Vice Chancellor for Internal Audit also rates the reports issued by the state Department of Audits and Accounts (DOAA). This rating is provided to the Chancellor and the BOR Audit Committee as a tool to evaluate the performance of institutions in their financial reporting responsibilities.

The process includes evaluating each audit finding and/or audit point noted at the institution. DOAA audit findings are generally of a more serious nature than audit points. The Associate Vice Chancellor for Internal Audit will rate the finding/point based upon the criteria in 16.3.8 above. The rating is discussed with DOAA to ensure that there is no significant disagreement with how DOAA would rate the finding/point. Other criteria utilized in determining the institution rating include:

- Timeliness of providing reports and supporting data to DOAA; and,
- The accuracy of reports, ledgers and sub-ledgers.

These data provide input in the judgmental rating of the institution. State audit ratings and exception rating scales are listed below.

Overall Audit Rating Scale

- **Code 1**
  - Few notable audit findings or points.
  - No internal control deficiencies noted.
  - Good adherence to laws, regulations, policies, and procedures.
  - Timely production of financial statements and support documentation.
  - Fairly presented original submission of financial statements.
- **Code 2**
  - Several notable and/or a few significant findings or points.
  - Minor violations of policies and procedures.
  - No violation of laws.
  - Timely production of financial statements and support documentation.
  - Fairly presented original submission of financial statements.
  - Minor opportunities for improvement.
- **Code 3**
  - Many notable and/or few significant findings or points.
  - Several notable violations of policy.
  - Minor violations of regulations.
  - No violation of laws.
  - Timeliness of production of financial statements and support documentation requires improvement.

  - Original submission of financial statements has several inaccuracies.
  - Moderate opportunities for improvement.
- **Code 4**
  - Several significant and no major findings or points.
  - Controls weak in one or more areas.
  - Noncompliance with regulations put the institution at risk.
  - Violation of law (not serious).
  - Untimely production of financial statements and/or support documentation.
  - Original submission of financial statements required significant improvement, and may have resulted in a disclaimer or qualified audit opinion.
  - Substantial opportunities for improvement.
- **Code 5**
  - Several significant or one or more major findings or points.
  - Significant risk for noncompliance with regulations.
  - Serious violation of laws.
  - Untimely production of financial statements and/or support documentation.
  - Original submission of financial statements required major changes, and may have resulted in a disclaimer, qualified, or adverse audit opinion.
  - Significant opportunities for improvement.

Report Item Rating Scale

- **Insignificant**
  - Nominal violations of procedures, rules, or regulations.
  - Not included in report.
  - Corrective action suggested verbally, but not required.
- **Notable**
  - Minor violation of policies and procedures, and/or weak internal controls, and/or opportunity to improve effectiveness and efficiency.
  - Moderate risk identified.
  - Corrective action recommended.
- **Significant**
  - Significant violation of policies/procedures/laws, and/or poor internal controls, and/or significant opportunity to improve effectiveness and efficiency.
  - Significant risk identified.
  - Corrective action required.
- **Major**
  - Major violation of policies/procedures/laws, and/or unacceptable internal controls, and/or high risk for fraud/waste/abuse, and/or major opportunity to improve effectiveness and efficiency.
  - Major risk identified.
  - Immediate corrective action required.