UC Financial Management

University of California
Business Officer Institute
May 22-24, 2007

Agenda

- Stewardship Role in Financial Management
- Financial Management Responsibilities
- University Accounting/Financial Reporting
- Resources
Economic Impact of UC

- $19.5 billion in FY06 expenditures
- >209,000 regularly enrolled students
- >302,000 Extension students
- >124,000 FTE faculty & staff
- >3.6 million patient visits to University hospital clinics and emergency rooms annually

Financial Management

Stewardship Role

Setting the Tone: Financial Management Practices

The role of the Business Officer includes setting the tone and expectations for financial management in his/her organization.

- If you were developing a set of principles of sound financial management to guide behavior in your department what would you include?
Financial Management
Stewardship Role

**Ensuring: Adequacy of Financial Controls**
The role of the Business Officer includes ensuring that financial controls are in place and are effectively carried out.

*Internal Control* is broadly defined as a process, effected by management, designed to provide reasonable assurance regarding achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

**Objectives – Controls = Residual Risk**

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Financial Management
Stewardship Role

**Ensuring: Regulatory Compliance**
The role of the Business Officer includes knowing the environment and the policies, laws, and regulations that impact the business they are conducting and ensuring that practices are in compliance.

**Before you act,** ask:

- What are the policy impacts?
- What are the regulatory impacts?
- Where are there informational or training resources?
- What are the risks to the institution and to my department if I proceed without all of the facts?
Financial Management
Stewardship Role

Ensuring: Integrity of Transactions

- Transactions
- General Ledger

Fund Activity Reports
Annual UC Financial Report
Audit Findings

Operational Mgmt Reports

Strategic Planning
Budget Policy Decisions
Credibility

Financial Management
Responsibilities

Planning and Budgeting

- Identify resources needed to achieve goals
- Measure current financial performance against a benchmark
- Discover significant transactional errors
- Detect significant changes in circumstances or business conditions
- Modify future plans and take corrective action
Financial Management

Responsibilities

Staffing and Work Environment

- Competent, knowledgeable staff
- Background checks for critical positions
- Resources to succeed
- Clear performance expectations
- Training and support
- Objective feedback & performance evaluations
- Open communications
- Improvement-oriented

Securing an Effective Accountability Structure

- Must be documented, approved and regularly reviewed
- Cannot delegate greater authority than you have
- Tasks must be delegated to qualified individuals
- Clear audit trail must exist
- Responsible for ensuring that those tasks are properly performed
Financial Management
Responsibilities

Transaction Processing - Preparer Responsibility

Must understand:

- Process
- Basic policy and regulatory requirements
- How to properly code transactions
- How to respond to edit messages

Financial Management
Responsibilities

Transaction Processing - Reviewer Responsibilities

- Independence
- Check for accuracy and appropriateness
- Check for policy and regulatory compliance
- Investigate and resolve all issues
- Designate an appropriate backup
Financial Management
Responsibilities

Internal Controls
- Periodic risk assessment
  - Process redesign
  - External influences
  - Reorganizations
  - Regulatory changes
- Cost-benefit

Analyzing Costs, Benefits and Risks
- When commitments are made to accept or expend University funds, the following should take place:
  - Analysis of costs, benefits and risks of planned activities
  - Prudent and necessary use of “Public Trust” funds
Financial Management

Responsibilities

Resource Management
- Process for monitoring and evaluating data:
  - Ensure that locally generated data is accurate
  - Compare budget to actuals
  - Review revenue/expenses
  - Investigate significant deviations
  - Correct any errors before next ledger cycle
  - Document corrective actions

Maintaining a Reliable Computing Environment
- Physical Security
  - Access Controls
  - Logon ID’s and Passwords
  - Firewalls
  - Encryption or Truncation of Personal Data (SB 1386)
- System Applications Issues
  - Segregation of Duties
  - Programming Change Controls
  - Programmer Background Checks
  - Backups and Disaster Recovery
Financial Management Responsibilities

Safeguarding University Assets
- Physical security of records and assets
  - Cash receipts, petty cash and change funds
  - Inventories
  - Inventorial Assets
  - Records

Responding to and Resolving Audit Findings
- External Audits
  - Regulatory Audits
    - IRS
    - State Franchise Tax Board
  - Compliance Audits
    - External Sponsors
    - A-133
    - NCAA
    - DS-2
  - Financial Audits
- Internal Audits
Financial Management

**Responsibilities**

**Cash Management**
- Segregation of Duties
- Accountability
- Physical Security
- Prompt Deposit
- Monitoring and Reconciliation
- Compliance with Payment Card Industry Regulations

**Receivables Management**
- Prompt billing
- Monitoring
- Follow-up
- (Dis)incentives - activity holds
- Collection efforts and write-offs
Financial Management
Responsibilities

Conflict of Interest

- Business must only benefit University
- UC employee or close relative must not personally benefit financially in any way from the conduct of business
- Report situations where potential for personal gain exists for evaluation
- Perceived conflicts of interest should also be evaluated

Financial Management
Responsibilities

Record Retention

Record Retention

- Regulatory Requirements
  - University Records Disposition Schedules Manual
- Legal Issues
- Cost Issues
- Technology Issues
Financial Management
Responsibilities

Support Group Activities
- Similar stewardship responsibilities as Business Officers
- Requires ongoing recognition of the Chancellor
- Use of the University name restricted

University Accounting/Financial Reporting
- Accounting Conventions
- Institutional Impact of UC Financial Statements
- Other Issues
Concepts of Fund Accounting

Fund accounting is the procedure by which financial resources are classified for accounting and reporting purposes in accordance with activities or objectives specified by donors, by regulations, restrictions or by limitations imposed by outside sources.
University Accounting/Financial Reporting

Accounting Conventions

Account Coding

Consistent and Standard Use Among and Within Campuses is Critical (Does not require consistent format, but consistent way to view data)

- Account Codes
  - Rolled up for Financial Reporting
    - Classes of Accounts
    - Functional Reporting
  - Funds
    - Rolled up for Financial Reporting
      - Source of Funding
      - Restrictions
- Object Codes
  - Reflect Objects of Expense
  - Used for Compliance with Costing Requirements

Institutional Impact of UC Financial Statements

Financial Reporting Hierarchy

- Shadow Systems
- Chart of Accounts Coding
- Allocations
- Financial Transactions
- Individual Grants
- Adjustments, Accruals

Executive Information Reporting

- Regents, State, Funding Agencies, Major Donors, Creditors, General Public
- Fund Managers, Departmental Financial Officers, Central Offices

Management/Operations Reporting

Fund Management & Reporting

- P.I.s, Departmental Financial Staff, Funding Agencies
University Accounting/Financial Reporting
Institutional Impact of UC Financial Statements

External Financial Audit
- Annual financial statement audit provides assurance to Board and other audiences that financial reports meet standards of integrity
- Audit also serves to identify areas for improvement
  - Financial Controls
  - Systems
  - Accounting Practices
- New audit standards in FY07 lower the bar for communication of control weaknesses/deficiencies (SAS 112)

Resources

Internal
External
Internal Resources

- UC Policies
  http://www.ucop.edu/ucophome/coordrev/ucpolicies/

- UC Research Administration Office
  (and links to OMB circulars)
  http://www.ucop.edu/raohome/

- Business Officers Institute
  http://www.ucop.edu/ucophome/businit/boi/

External Resources

- Regulatory Updates, Training Opportunities
  National Assn. of College and Univ. Business Officers
  http://www.nacubo.org/

- Extramural Funds Management
  Council on Governmental Relations (COGR)
  "Managing Externally Funded Programs at Colleges and Universities: A Guideline to Good Management Practices"
  http://www.cogr.edu
  (Click on "Educational Materials" and "Research Administration")
Business Officer Quiz