

RESPONSIBILITIES ASSOCIATED WITH FINANCIAL MANAGEMENT

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I. PURPOSE OF CHAPTER 3

The purpose of this chapter of *The Guide* is to provide information about administering finances. This section notes significant policies and procedures, provides an overview of internal control, gives suggestions for getting organized and ready to work, and provides a check list of periodic tasks to complete.

II. PERTINENT POLICIES

As noted in Chapter 2 of *The Guide*, financial management must be done in accordance with Adams State College policies. Two policies of critical importance are *Fiscal Roles and Responsibilities* and *Fiscal Code of Ethics*.

The *Fiscal Roles and Responsibilities Policy* establishes the duties associated with key levels of management personnel, so that the fiscal impact of College operations is planned, controlled, and accurately accounted for in the College's financial records. The *Fiscal Code of Ethics* discusses the fiduciary responsibility of every College employee to fulfill its overall mission in compliance with applicable policies, laws, regulations and rules, and contracts, grants and donor restrictions

In practice, however, the program manager often delegates responsibility for the transaction processing, record keeping, and financial monitoring to a different employee within the unit. This individual is frequently an administrative assistant, program assistant, or office manger. Since the minimum qualifications for these job classes do not include accounting or budgeting, staff that are asked to assume responsibility for a unit's finances often have little or no formal education and/or professional experience in these areas. Therefore, this section of *The Guide* addresses the activities and responsibilities associated with a position having financial duties.

III. INTERNAL CONTROL

Internal control is defined as a process, or group of processes, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting, and
3. Compliance with applicable laws and regulations.¹

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A. Overview of Internal Control

Adams State College's Administrative Policy Statement on *Fiscal Roles and Responsibilities*, referenced in the *Pertinent Policies* section in this chapter of *The Guide*, explains that, "Rule 1-8 of the State of Colorado Fiscal Rules requires the college to implement internal accounting and administrative controls which reasonably assure financial transactions are accurate, reliable and conform to *State Fiscal Rules*."

Therefore, an essential function of every finance-related job on the campus is to safeguard the assets of the college through the development and implementation of a solid structure of internal control. Such a structure consists of policies and procedures designed to provide reasonable assurance that specific departmental and college objectives will be achieved.

Without a set of internal controls, the college may fail to attain its objectives for reasons such as:

- Fraud and waste
- Losses resulting from fines and penalties due to non-compliance
- Inadequate resources resulting from inefficient processes
- Interruption of operations because of injury to personnel
- Ineffective communication that, in turn, results in misapplication of effort and resources.

Each department must create and maintain a structure of internal controls. Internal controls may vary from one department to the next because the specific control structure implemented for a given entity within the college will depend upon its size, the nature and complexity of its operations, and whether or not it is subject to requirements imposed by legislative or regulatory bodies.

After the internal control structure has been put into place, it is imperative that those doing the work monitor the controls and offer suggestions for changes as appropriate. Internal controls exist in a dynamic environment. Employees retire, computer systems are upgraded, and circumstances arise which may necessitate modifications to internal controls. Through routine monitoring of its internal control structure, the college can react quickly and appropriately to changing conditions.

Some Final Thoughts about Internal Control

Internal controls are more than a set of policies and procedures. Internal controls provide reasonable assurance to the leaders of the college against risk in operations, financial reporting, and compliance with regulations. At the heart of the internal control structure, and across all levels of the college, is the staff. Every employee interfaces with internal controls during the course of

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his/her work and, therefore, plays a critical role in mitigating risk for the college, safeguarding the college's assets, and ensuring that the college has every opportunity to successfully achieve its objectives.

If you are the person responsible for departmental finances, then you play a key role in making sure that your departmental operations and finances are guided by a sound set of internal controls.

☎ Contact the ASC Controller for assistance in developing or evaluating the internal control structure of your department.

It is imperative that EVERY department on campus develop and implement internal controls.

B. On-The-Job Application of Internal Controls

Internal control is not just one action, but a series of actions designed to safeguard the assets of the college. This section of *The Guide* describes internal control activities that should be present within every department on and off campus.

1. Records Management

Records management at ASC follows guidelines and schedules articulated by the State Controller, Colorado State Archives, and directives issued by various agencies of the federal government. Specifically, the ASC retention practices are guided by Schedule 7, *Financial Records*, of the *Records Management Manual*. This schedule can be viewed on the Web at the <http://www.colorado.gov/dpa/doit/archives/rm/rmman/sch7.htm>.


With respect to financial records associated with sponsored programs that receive federal funds, the ASC records management practices adhere to the following:

- Office of Management and Budget Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*. A-110 can be found on the Web at <http://www.whitehouse.gov/omb/circulars/a110/a110.html>
- Department of Health and Human Services CFR Title 45, Part 74, *Uniform Administrative Requirements*, Subpart C: *Post-Award Requirements*, 74.53, *Retention and access requirements for records*, and 74.48 *Contract provisions*
- NIH Grants Policy Statement *Record Retention and Access*, October 1998
- Public Health Service Grants Policy Statement *Record Retention and Access*, October 1998

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- Federal Acquisition Regulations, CFR Title 48, Section 52.215-2, *Audit and Records – Negotiation*
- Federal Acquisition Regulations CFR, Title 4, Section 4.705-1, *Financial and cost accounting records.*

A word of caution about records: According to the Colorado State Archives *Records Management Manual*, NO RECORD SHALL BE DESTROYED SO LONG AS IT PERTAINS TO ANY PENDING LEGAL CASE, CLAIM, ACTION, OR AUDIT.

 Contact the ASC Controller if you have any questions about the retention and disposition of finance records.

2. Source Documents: Organization and Filing

Getting source documents organized and placed into files serves as the foundation for staying in control of departmental finances. With a good filing system in place, answering questions such as, “How much money is available to spend on travel in a certain org. unit?” or, “When will that equipment be delivered?” become a breeze.

The first step in getting organized is to set up a system that will provide convenient access to essential information. Source documents, invoices, receipts, and financial statements should each have a place to call home.

a) **Set up an “IN” basket.**

Designate ONE spot in the work area for departmental folks to deposit all materials related to their purchasing and financial activities. Make it clear that all requests and other purchasing documents, all packing slips, all invoices, all receipts, etc., should be placed into this “IN” basket. Explain to departmental staff that, by depositing all paperwork into the “IN” basket, it facilitates processing timeliness and effectiveness.

b) **Organize all source documents.**

The list that follows offers suggestions for getting organized.

i) **Create a set of two files for each departmental org. unit.**

Think of the first file as a *parent* file, which will serve as a folder for holding two *child* files. Now, create two child files: one for source documents that are still outstanding or pending, and the other for source documents that have cleared the monthly statement.

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ii) **Organize the paperwork in the each of the child files**

Arrange the materials by type of document, e.g., clip all cash receipts together, clip all journal entries together, etc. Or, sort the source documents according to account, e.g., clip together all paperwork with an operating expense account, then clip together all source materials with a travel expense account, etc.

iii) **In the child file containing the cleared source documents (organized either by type of document or by account classification), make sure to also group the paperwork by month.**

For example, clip together all July paperwork, i.e., the source documents associated with the transactions that cleared the statement in July. Do the same for the paperwork for August transactions, September transactions, etc.

3. **Develop Departmental Procedures for Each Financial Process**

The financial processes with which a department is typically involved include cash handling, journal entry preparation, and budget journal preparation. Procedures should be developed to administer each of these processes so that the assets of the college are safeguarded, and reasonable assurance is provided that the college's objectives will be achieved. At a minimum, each procedure should incorporate the elements of proper authorization, segregation of duties, and maintenance of documents and records.

Note: Sound procedures, characterized by strong elements of internal control, should also be developed for all procurement and human resources processes within the department.

a) **Proper Authorization**

In some instances in the current operating environment, the college has moved away from paper documentation and hard-copy signatures to on-line approval. Authorization resides within the Finance System itself. Each end user of the Finance System has been assigned an Operator ID. The Operator ID has, in turn, been given a specific security profile that details the degree of system access available to the end user.

It is imperative that the *Operator ID and Password Combination*
BE KEPT CONFIDENTIAL.
DO NOT SHARE THIS INFORMATION.

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b) *Segregation of Duties*

Departmental procedures for administering financial processes should be designed so that the duties of one employee provide a crosscheck on the work of one or more other employees. Such procedures can prevent errors and provide prompt detection of irregularities in the performance of assigned tasks. For example, the responsibilities of executing a transaction, recording a transaction, and maintaining custody of the assets resulting from the transaction, should be assigned to different individuals.

c) *Maintenance of Documents*

Documents, whether in electronic or paper format, provide evidence of the occurrence of the transaction and the conditions associated with the transaction. Documents detail the date, price, terms, and description of the transaction. When properly authorized, documents also provide a basis for establishing responsibility for the execution and recording of transactions. For more information about records retention refer to the *Records Management* section that is found on page 4 of this chapter.

4. Detailed Procedures for Cash Handling

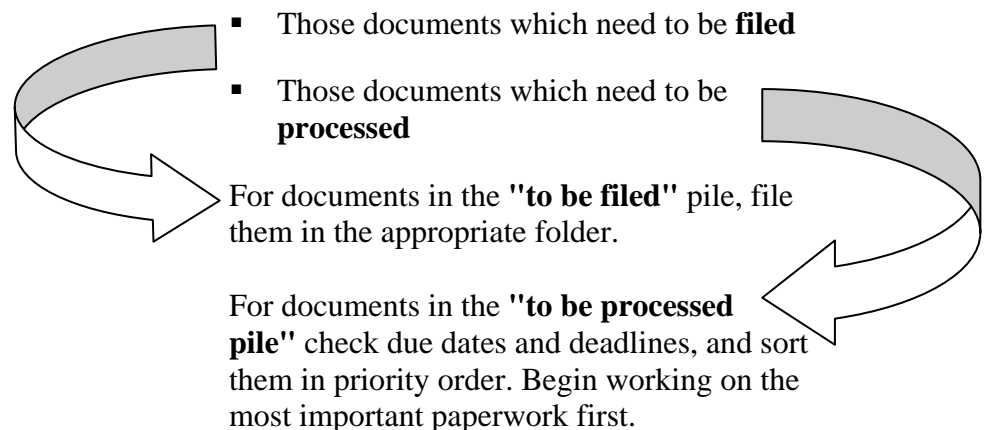
Due to the sensitive nature of working with cash, this topic is the focus of an entire chapter - Chapter 10 - *Cash Control*, in *The Guide*.

5. Perform a Series of Daily, Weekly, Monthly, and Quarterly Tasks

a) *Daily Tasks*

i) Look through your "IN" basket.

(a) *Separate the paperwork into two piles:*



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⇒ When deciding which items are "**high**" priority and which are "**low**" priority, keep in mind

- **Process deadlines**, E.g., What is the deadline for completing an on-line journal entry or budget journal if it needs to post this month? *and*
- **Turn around time** required by certain college processes, E.g., How much lead-time does Accounts Payable need to generate a vendor check?

b) Weekly Tasks

i) Keep on top of all deadlines.

- Are there any critical accounting, budgeting, purchasing, or payroll deadlines this week?

ii) Look through the outstanding/pending files.

Are there bills needing to be paid? Journal entries needing to be prepared?

c) Monthly Tasks

i) Reconcile your source documents to the *Monthly Banner Report or Web For Finance Period Report*

(a) Get out the "pending/outstanding" file for each org. unit.

(i) Remove each source document from the file and look on the statement to see if the transaction has been recorded in Banner. The following reference fields will assist you in locating the transaction on the statement:

- Account #
- Invoice# or source document #
- Vendor
- Description

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(ii) **When you have located the transaction, verify that the account number and the amount shown on the statement are the same as those appearing on the source document.**

(a) If the information on the source document and the statement **agree**,

- Make a check mark next to the particular transaction on the statement,
- Indicate on the source document the month and year the transaction cleared the statement, and
- File the source document in **CLEARED** file for the respective org. unit.

(b) If the information on the source document and the statement **do not agree**,

- Do some research.
- Return the source document to the **PENDING** file until the mistake has been fixed and the corrected transaction appears on the financial statement in a subsequent month.

(c) If the transaction on the source document **does not appear on the statement**,

- Make a note to that effect on the source document. E.g., "Not on March 2005 statement".
- Return the source document to the **PENDING** file.

ii) **Compare the budget to the actuals on the *Monthly Banner Report or Web For Finance Period Report***

The purpose of this monthly exercise is to determine whether or not an organization is in control of its operations by comparing the **PLAN** for revenues/expenditures, (as articulated by the budget for the org. unit), to the revenues and expenditures **ACTUALLY RECORDED** in the org. unit.

d) Quarterly Tasks

i) **Take an in-depth look at the financial activity in each org. unit and at the financial position of each org. unit.**

(a) **Look at the variance between the budget and the actual**

- For each account within the org. unit
- For the "bottom line" of the org. unit

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⇒ Typically, a variance of 10% or greater should be examined.

(b) Review the revenue and expense patterns in each individual org. unit.

(i) What was the status of each particular org. unit at the end of the previous fiscal year?

(a) Was the org. unit on-target, over-expensed, or under-expensed for the year?

ii) How do the actual revenue/expenses for the org. unit in this fiscal year compare to the actual revenue/expenses for the org. unit during the same period of the previous fiscal year?

(a) Are they similar?

(i) Based upon the prior year-to-current year comparison

(a) Are there certain org. units that will likely be over-spent at the end of the year?

(b) Are there other org. units that will likely come in under budget?

(c) For General Fund org. units:

(i) Should a budget adjustment be made?

(ii) If so, should the budget adjustment be temporary or continuing?

(d) For Auxiliary Fund org. units:

(i) Were the cash balance and fund balance favorable at fiscal year end for the prior year?

6. Provide Regular Reporting to Management

It is imperative that the employee who is responsible for maintaining the department's financial records, doing the monthly reconciliation of the departmental org. units, and performing the quarterly monitoring of the financial statements, communicate information about the department's financial condition with management.

For example, management must be informed if the revenue or expense pattern for the current fiscal year differs from previous fiscal years. When

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faced with a financial discrepancy from one year to the next, management may decide to take corrective action such as requesting additional budgetary support or reducing expenditures. Similarly, when analysis indicates evidence of an on-going problem in a particular org. unit, this information must be presented to management. It is imperative that management takes corrective action so that the financial objectives of the college can be achieved.

With the launch of the new Web for Finance Tool in FY2006 that provides online financial reports to every employee—management included—who has a fiscal role, you might assume that the right people are getting the right information. Ideally, this is true. However, if you notice anything unusual or that deserves a closer look, do not hesitate to inform management. Be proactive—don't assume that they caught the problem.

The *Fiscal Roles and Responsibilities* policy identifies specific areas of responsibilities appropriate to the different fiscal roles: Officers, Fiscal Principals, and Fiscal Managers. The Fiscal Managers section G-6 contains a list of things to pay attention to during the financial report review process and section G-7 contains a list of things that should be brought to the attention of the Officer, Fiscal Principal or Fiscal Manager as appropriate.

7. Know Pertinent Policies, Procedures, Regulations and Resources

The ASC FY06 current funds operating budget was approximately \$36 million. Financial support comes from

- Gifts, grants and contracts. Funding sources for this category of revenue include
 - Federal Direct Lending Program
 - Sponsored programs (federal, state, private)
 - Federal student financial aid
 - Private gifts from non-governmental sources.
- Tuition and fees
- State appropriated funding which includes
 - State general fund support for current operations
 - State appropriated student financial aid
- Auxiliary and other revenues.

With such a diverse funding base, there are several policies and regulations that govern college operations and the spending of college monies. Among these are:

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a) *Purchasing*

All purchases must be made in accordance with the regulations established by the State of Colorado, and the Federal Government. These rules are designed to ensure accountability to the public and fairness to the vendors. It is important to follow proper procurement procedures when buying goods and services for the college, and imperative to avoid after-the-fact purchases.

b) *Travel*

All travel associated with college business, whether foreign or domestic, must be conducted in accordance with the regulations established by the Colorado Statewide Travel Management Program (STMP), as well as all applicable State and Federal rules.

c) *Sponsored Programs*

The area of sponsored program financial management can be particularly challenging because of the number and complexity of the associated regulations. The Controller of Sponsored Programs handles most of the post-award process. Tasks such as keeping expenses within the award budget, identifying allowable and unallowable expenditures per OMB A-21, administering the Personnel Effort Reporting System (PERS), preparing invoices and collecting payments, submitting financial reports, and working with cost transfers, fall within the purview of the Controller of Sponsored Programs.

ⁱ Wilson, James D. Budget and Profit Planning Manual. Warren Gorham Lamont, New York, N.Y. 1994, page E8-7.