

Guidelines for Department Administrators Working with Business Service Centers
Topics: Account Review and Financial Transaction Review

Context

This document has been prepared to assist department administrators in the areas of financial transaction review and account review whose department is supported by a business service center. The guidelines are not intended to be an exhaustive guide for managing all transactions and all accounts, but rather should be used to support and inform judgments department administrators must make on a continual basis.

Account Review

General Overview

The reliance upon a BSC for financial transaction processing or financial management activities does not remove financial stewardship and management oversight responsibilities for a department from the department administrator. Specific actions may vary depending on the support provided by the BSC, but fundamental financial oversight responsibilities remain at the unit level. Department administrators should have current knowledge of the purpose and use of department accounts, the level of risk associated with individual accounts and the related transaction activity, and confidence in the reasonableness of account balances.

Understanding Account Activity and Account Risk

The account review process a department administrator should adopt should vary based on the nature of the accounts and the associated risks.

- Understand the accounts you are responsible for.
 - How are accounts initiated and established for your department?
 - Account purpose – what is it used for?
 - Nature of account – restricted/non-restricted, amount of activity to expect, size of budget or anticipated transaction level (in terms of dollars and # transactions), types of transactions and vendors
 - Who is the account owner – i.e. who has primary responsibility/authority for deciding how the money is spent?
 - Who has primary financial management responsibility for the account?
 - How are transactions reviewed and controlled before being posted to the account?
 - What is the current account balance and is this account balance reasonable given the timing and duration of funds received, the cycle of business activity, etc?
 - At least quarterly, review the schedule of departmental balances to identify any new accounts you may not be aware of.

- Determine the risk level regarding the account

Account risk refers to the level of concern that errors, problems or irregularities might occur regarding account activity **and** the assessment of how such circumstances could negatively impact the account user, department, college, and/or university. The risks associated with the

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miscoding a transaction to the wrong unrestricted account is likely much less than miscoding the same transaction to the wrong restricted funds account.

The two most common factors to consider when evaluating risk are:

- Funding source – unrestricted vs. restricted fund; restricted funds are typically considered higher risk due to explicit limitations on how the funds can or must be used and the potential impact on future funding support
- Nature of transaction activity – scheduled payroll and routine non-personnel activity are generally less risky than unscheduled and non-routine activity.

Although often related, the level of risk associated with an account may differ from the level of risk associated with the underlying transaction activity. For example, specific transactions may carry greater risk due to the nature of the activity, past history with the vendor or initiator of the transaction than the risk associated with the account and related funding source.

The assessment and management of risk requires thoughtful judgment by the department administrator of the unique considerations for each account. All accounts must periodically be reviewed however the degree of risk associated with the account can help determine how often an account should be reviewed and how detailed that review should be. Department administrators are encouraged to obtain training through DFA (e.g. Course: FIN 104 Financial Stewardship and Compliance at Cornell) to further understand account risks and responsibilities.

The following is a description of various types of accounts and the degree of risk typically associated with each. This is not an exhaustive list of all types of accounts nor should it be used as a definitive classification for a particular type of account.

Less Risk

- Unrestricted Department Operating – no restrictions regarding use of funds; low risk of external review

Moderate Risk

- Petty Cash Accounts – balance is generally small but the fact that it is cash can lead to loss.
- Accounts Receivable Accounts – represents a balance due to the University. Unbilled or uncollected receivables is cash lost for the unit and the University.
- Unrestricted Gift Accounts – reports to sponsors not usually required; indefinite term dates; not restricted in use.

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Highest Risk

- Sponsored Research Accounts Including Cost Sharing and Accounts Receivable– Terms are restrictive and requirements specific.
- Restricted Gift Accounts – in situations where the donor wants all expenses accounted for and there may be little department discretion. May also be for a limited time period.

Account Review Strategies

An overall written procedure defining how accounts will be reviewed should be established. Putting the account review procedure in written form will facilitate the review process, help ensure the review process is thorough and complete, provide a basis for staff training, and ensure consistency. The plan should consider and address the following:

- Determine how frequently the account balance should be reviewed (e.g. weekly, monthly, quarterly). Account balances should be reviewed at least quarterly.
- Determine who is responsible for what transaction activities and/or account reviews.
 - Are you relying on a business service center for basic review of your unit accounts and transaction activity? If so, how frequent and how complete is the review?
 - Are you expecting another staff/faculty person to review the account regularly and if so, is the review adequate?
 - Set and communicate expectations to all parties. Responsibilities for the BSC should be documented as part of a formal service agreement.
- Define the basic strategy for account review. The amount of detail you need to review depends on the associated risks. Suggested strategies include:
 - Calculate change in balance from beginning to end of the review period (monthly, quarterly or annually). Determine if change in the balance make sense based upon your knowledge of the account.
 - Investigate any unusual or unexpected account balances or fluctuations.
 - Considering the level of risk associated with the account and the amount of transaction review previously performed, scan transaction activity for appropriateness against the terms of the account or sponsored award if applicable. Refer to the transaction review section of this document for further discussion.
 - Review accounts with deficit account balances and establish an explicit plan to eliminate the deficit or highlight the issue for attention by your department head.

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- Review inactive accounts with available funds periodically to determine if such resources could be used for current funding needs.

Transaction Review

General Overview

For purposes of these guidelines, a financial transaction is defined as any economic event that is ultimately recorded or should be recorded in the university's general ledger. In departments these activities include the receipt of funds, disbursement or internal transfer of funds, and any binding commitment regarding the acquisition of goods or services or the providing of services to others.

With the establishment of business service centers (BSC) in units across campus, the processing of transactions through university systems, including final authorization, is typically performed or directed by BSC staff. This processing responsibility generally includes reviewing transactions for reasonableness of purpose, business need, and amount, reviewing for compliance with university policy, account or sponsored award restrictions, reviewing adequacy of supporting documentation, ensuring any necessary department review has occurred, and final authorization of the transaction. The related processes are intended to ensure that the basic internal control elements of validity, accuracy, completeness, proper classification, proper accounting, and authorization are satisfied. Given that these processes occur prior to a transaction being fully executed they are referred to as pre-transaction processing and are considered preventive internal control procedures.

Department administrators rely on BSC staff for their unit's transaction support, but still retain general stewardship and management oversight responsibilities for financial activity in the department. Department administrators can generally meet these responsibilities by establishing clear expectations, responsibilities, and authorization levels for the initiation of transactions (preventive measures) and through strong post-transaction (i.e. after the transaction has been executed) review procedures.

Understand Business Activity and Related Risks

To provide proper management oversight of transaction activity a department administrator must understand the nature of transactional activity in their unit. This is essential regardless of the fact that a BSC processes transactions for the unit. The importance of relying upon a strong understanding of the nature of departmental transactions becomes more critical as the direct involvement with individual transaction processing decreases.

Department administrators should build a strong understanding of the following:

- Initiating source or event – what is the triggering action causing purchasing actions and who are the appropriate individuals to initiate the purchases;
- Type of expenditures and the related business purposes the generally occur;
- Type of revenue received and the underlying source activities;

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- Frequency of expenditures and revenue receipts;
- Recurring or non-recurring nature of the transactions – recurring transactions are those that occur on a fairly regular schedule and are reasonably predictable in volume and amount. Payroll or monthly communication bills are examples of recurring transactions.
- Unusual or exception transactions – understand what activity would constitute an unusual or exception transaction that might require additional review or special handling.
- Transaction risk – understand the financial, compliance, and operational risk of the business activities. Consider the source of funding (restricted vs. unrestricted), compliance requirements for the type of transaction, department or management expectations, established unit-based transaction review or authorization requirements, and past history or knowledge of potential problems (e.g. conflict of interest or commitment).

This understanding is typically built through discussion with appropriate faculty, administrators, and other staff, through review of contractual agreements, and through regular observance of department activity.

Strategies for Managing Transaction Activity

The strategies for managing transaction activity generally fall under two categories – preventive strategies and post-transaction review strategies.

Preventive Strategies

- Develop an overall plan for how individual transactions and/or categories of transactions will be managed. Specifics of the plan may vary based on the type of transaction, risk associated with the transaction, dollar amounts, or possibly other variables. Consider the amount of expected scheduled or routine transactions (e.g. regular payroll, benefits, communication, or other monthly bills, etc.) versus non-routine activity in developing a transaction review strategy.

The overall plan should also consider the relative cost of a possible error or chance of an irregularity. For example, the cost of a transaction being misclassified between two unrestricted accounts may be minimal and not worth reviewing.

- Using the overall plan as a guide, establish a written agreement with the BSC clearly defining responsibilities for transaction review and processing. This agreement should define any unit specific processing or authorization requirements that BSC staff must adhere to including any special handling of transactions in higher risk categories.
- Communicate to department faculty and staff their responsibilities relative to initiating and processing transactions, including any department defined requirements for review or authorization on particular items. The primary

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responsibility for ensuring a transaction is a valid university transaction with an acceptable business purpose rests with the initiator and this responsibility should be periodically reinforced through department communication.

Post-transaction Review Strategies

- Use exception reporting to identify unusual activity and possible errors or irregularities. Exception reporting consists of routinely generated reports intended to identify higher risk activity based on pre-defined criteria. Such criteria often includes specific dollar thresholds, certain types of transaction object codes, particular vendors, particular employee activity, certain account or funding sources, etc. For low risk activity, exception analysis is sometimes performed most efficiently across a range of accounts (e.g. categorized or listed by object code, by vendor) rather than by each individual account.
- Scan activity to identify transactions requiring further inquiry and review. The scanning process may be performed most efficiently and effectively by grouping transactions in some manner such as object code, vendor, dollar amount, similar accounts, etc.
 - for payroll and benefits, the 189 report or labor distribution detail;
 - scan payroll charges for consistency in amounts to the previous period and appropriateness of employees paid
 - scan the benefits charges for consistency to the previous period and proper ratio to payroll expense
 - scan the non-payroll expenses for unusual vendors, amounts or timing or unexpected transaction activity

NOTE: Scanning transactional activity does not require department administrative staff to review the supporting documentation for all transactions, most of which is likely on file with the BSC. However, for unusual or unexpected transactions it may be necessary to review the supporting documentation in order to be satisfied with the appropriateness of the transaction.

- Transactional risk will vary by the nature of the funding source, the amount of the account balance and other variables impacting the business risk associated with the account. Specific post-transaction review strategies should be developed for higher risk accounts. Further discussion on possible strategies is provided in the account review section of this document.