I. Purpose

This policy provides a summary of the key fiscal responsibilities required by the University. Each employee is responsible for financial controls relevant to their role at the University. This document outlines basic guiding principles and required departmental controls, including responsibilities at different organizational levels.

II. Guiding Principles for Financial Controls

A. An optimal control environment sets the tone for the organization and calls for clearly defined roles and responsibilities, policies based on principles rather than procedures, and a minimal number of exceptions to those policies.

B. Risk assessment is the identification and analysis of relevant threats and exposures and their consequence and may include both internal and external factors.

C. Control activities include appropriate policies and procedures to ensure objectives are achieved and risks are mitigated.

D. Information and Communication ensure the appropriate information is identified, captured, and communicated in a timely manner to allow people to carry out their duties.

E. Monitoring provides oversight by assessing the effectiveness of internal controls over time through ongoing activities such as trend/variance analysis and separate evaluations such as internal audits.

The Office of Internal Controls coordinates the annual Unit Certification of Financial Results and Internal Controls. Given the decentralized nature of administrative operations, this certification process, which is geared toward Deans, Vice Presidents and Directors, is designed to help develop a broader understanding and accountability of unit financial results and internal controls. The Office of Internal Controls reports summarized certification results to the Regent’s Finance, Audit and Investment Committee on an annual basis.

III. Essential Department Level Requirements for Financial Controls

Four main elements should exist in all University units that manage their own finances. The University requires these elements for all units (and at all levels) that control their own finances. If your unit has a unique DeptID, this policy is applicable. Major operating units, sponsoring agencies, donors, and other internal or external agencies may impose additional requirements. The minimum requirements are:

• Preparation of a Budget Plan (including anticipated revenues and expenditures)
• Processing and Approving Financial Transactions
• Financial Review
• Internal Controls and Management Responsibilities

These elements are similar to the guiding principles described earlier. The difference is that these essential Department-level requirements provide additional guidance to assist units in implementing the guiding principles within their unit. The complexity of organizational structures and the various funding sources within the University may impose additional layers or levels of review beyond what is described here but the four main elements (detailed below) represent the minimum requirements.

A. Preparation of a Budget Plan (including anticipated revenues and expenditures)
   1. Budgets should reflect the unit’s operational plans for a period of at least one year and ideally represent those plans over several years.
Operating budgets are typically adopted and approved on an annual basis and are administered from an annual budget perspective. The budget plan should include all operating funds available to the unit.

2. Review, approval, and endorsement of the budget requires an understanding of the major budget components by the unit head.

Since budgets include numerous details, responsibility for the budget details are typically delegated to faculty and staff who have operational decision-making authority. Preparation of a budget requires involvement by the head of the unit and by their financial management staff (e.g., department administrator who typically reports directly to the unit head).

B. Processing and Approving Financial Transactions

1. Individuals with responsibility for processing any financial transaction must ensure proper approvals have been obtained from individuals with delegated budgetary authority to support the expenditure of University funds.

Approve written documentation of these approvals should be kept on file when not maintained electronically. Individuals with responsibility for processing financial transactions may have the full range of responsibility or have duties associated with a specific activity (e.g., faculty and staff appointments; timecards and gross pay registers; purchasing). The approval process can vary dramatically by unit so individuals should check with their department for unit policies and procedures.

2. Approvals must be obtained from an individual with budgetary authority and adequate knowledge of the transaction.

   a. Individuals designated with approval responsibility should be in a position to determine that the financial activity is appropriate. Appropriateness refers to two factors:

      1. management review – whether the expenditure would be considered within the intended use of the budget or if the expenditure is not planned for, is it considered a good use of unit resources.
      2. compliance review – whether the expenditure is consistent with the relevant policies of the University, donor intent, or sponsor guidelines. It is important to note that University policy must be met at a minimum even if the donor intent or sponsor guidelines (e.g., OMB Circular A-21) allow a more lenient approach. Specifically, policies are the presiding determinant over all other guidance unless donor or sponsor policies are stricter.

   b. Individuals who authorize commitments must be aware of the relevant policies, including donor intent and sponsor guidelines, that guide expenditure decisions.

   c. In organizational structures where one individual may not be in a position to review both aspects of appropriateness as defined above, a two-step approval process may be necessary. In such cases, a clear definition of the roles of each approver should be developed. In no case should financial activity exist that cannot successfully pass both management and compliance review. Individuals should not approve their own expenses or that of a person to whom he/she functionally or administratively reports.

   d. No one individual should control a financial transaction from start to finish. This point is discussed in more detail later in this document under the separation of duties requirement.

C. Financial Review

Individuals with delegated budgetary responsibility should regularly review budget versus actual activity and budget variances need to be adequately explained. Financial reviews should include the identification of budget variances, fund balances, and the review of financial activity to ensure all financial activity is appropriate and correct.

This process begins with reconciling the financial statements of activity but includes verifying that required approvals were obtained and confirming adequate documentation exists to support each financial transaction. Management reports should include exception and trend reports for the overall operation of the unit and reviews should focus on activity levels and unusual trends. Management reports should be reviewed with unit leadership on a regular basis.

Although individual units may use supplemental systems to monitor selected unit trends and activity, financial review is necessary to validate that the University’s centrally maintained financial data (e.g., statements of activity, gross pay registers, project grant balances) is complete and accurate. The integrity of the financial data maintained in the University’s central enterprise-wide M-Pathways system, including the accuracy of revenue and expenditure functional classification, is critical for University-wide reporting, including consolidated financial reporting and state and federal regulatory filings. Departments should not duplicate the data available in the M-Pathways, which is the system of
record. It is critical to fully reconcile any supplemental system financial data maintained by departments to the financial data in the central M-Pathways system.

D. Internal Controls and Management Responsibilities

1. All managers, from the unit level to the President of the University, should use internal controls to help assure that units operate according to a plan.

Most internal controls can be classified as preventive or detective. Preventive controls, which are generally more efficient, are designed to discourage errors or irregularities (e.g., requiring supervisory sign-off before an item is purchased). Detective controls are designed to identify errors or irregularities after they have occurred (e.g., reconciling financial statements of activity to ensure all charges are appropriate and correct). The existence of detective controls can also serve to prevent irregularities. For example, an individual tempted to use departmental funds inappropriately may be deterred by the knowledge that financial statements are regularly reviewed. Through careful design and documentation, the system of internal controls can help units operate more efficiently and effectively and provide a reasonable level of assurance that the processes and products for which you are responsible are adequately protected.

2. All managers are responsible for ensuring that internal controls are established, documented and functioning to achieve the mission and objectives of their units. Adequate internal controls allow managers to delegate responsibilities with reasonable assurance that what they expect to happen actually does happen.

3. Management responsibilities include consideration of effectiveness, efficiency, compliance with laws and regulations and accuracy in reporting. Effectiveness measures whether an organizational unit achieves its objectives. Efficiency measures how well managers make use of available resources in achieving these objectives. While achieving the unit’s objectives, managers must also comply with applicable policies, regulations, and laws.

4. In order to make sound decisions and comply with oversight requirements, managers must receive accurate information and reports. Internal controls are a coordinated set of policies and procedures used by managers to ensure that units operate efficiently and effectively in conformance with applicable policies, regulations, and laws.

5. University Audits includes fiscal responsibility reviews in the annual Internal Audit Plan. Each year, several units are selected for comprehensive audits of internal controls related to fiscal processes. This includes but is not limited to payroll, purchasing, cash handling, and grant management. During a fiscal responsibility audit, the auditor will review and comment on the quality of each gap analysis and associated documented policies and procedures. Audits are designed to point out where management should focus resources to improve the control environment and reduce the risk of something going wrong. University Audits is available to give advice; however, the decision for appropriate oversight and control is the responsibility of management.

IV. Financial Oversight Responsibilities by Level

In a large and highly decentralized environment, fiscal responsibilities are distributed throughout the University. The organization structure, in particular the administrative structure, establishes many of the roles and responsibilities for financial management. Financial controls are strengthened when separation of duties exists. Financial controls are weakened when one person handles a financial transaction from start to finish. The adequate separation of duties requirement is essential in order to maintain an appropriate system of checks and balances.

The administrative capacity of a department to manage their financial activities (e.g., budgeting, transaction processing, financial review, and internal controls) needs to be assessed primarily by the major operating unit of which they are a part. For example, as fiscal responsibilities emerge in the role of a Principal Investigator (PI), a PI’s department should determine how the financial aspects of the work associated with his/her projects will be done (e.g., which duties are the responsibility of project staff vs. departmental staff). Departments must ensure that adequate separation of duties exists. The PI is responsible to review sufficiently the work of others, including oversight of financial matters, in order to provide a reasonable level of assurance that the work is being performed properly and on a timely basis.

Levels for financial management responsibilities are codified within the University’s administrative (M-Pathways) systems. A coding scheme is utilized that defines the administrative structure for purposes of management oversight and control. Existing code names, with some examples of organizations within each level in bracketed, are shown below:

A. University Level [Appointing Department Group VP Area]
   1. Executive Officers

B. Major Operating Unit Level [Appointing Department Group]
Review of management reports to identify outliers and trends is an important part of the internal control process. Many management reports are available through the data warehouse and M-Reports for department management’s use in monitoring financial trends. These reports are important to not only identify and correct specific transactions, but also to address the root cause. A list of reports that should be reviewed, at a minimum, for each business process for various levels of financial oversight is available at the following website:
http://www.mais.umich.edu/reporting/download/fin_top_reports.xls

V. Role of Individual Faculty and Staff with Financial Responsibilities

As indicated in the previous section, in a large and highly decentralized environment, fiscal responsibilities are distributed throughout the University. The organization structure, in particular the administrative structure, establishes many of the roles and responsibilities for financial management. While individual responsibilities are determined in part based on the level in the organization in which they work, certain roles exist at all levels. These roles include:

1. Executive Management
2. Financial Management
3. Faculty and Staff with Delegated Financial Authority (including Project Directors and Principal Investigators)

A. Executive Management

Individuals who hold executive management positions (including deans, directors, vice presidents, the provost, and the president) inherently come with the responsibility for the financial activity occurring in each of their units. These individuals are typically charged with much broader responsibilities and utilize budgeting and financial management for purposes of planning and monitoring the activities for their area of responsibility. Since executive management is ultimately responsible for the fiscal integrity of their organization, this role must provide leadership, oversight, and management philosophy to ensure that all funds are spent and managed according to the goals, objectives, and mission of their organization.

B. Financial Management

Individuals who hold positions with an oversight role for financial activity typically report to the head of the unit. These individuals (including Department Administrative Managers, Business Managers, and Budget Administrative Group Managers) provide oversight on how funds are spent and managed, including ensuring that funds are budgeted. Duties include:

1. Ensuring funds are handled in accordance with relevant fiscal policies (e.g. That funds are spent appropriately in compliance with University policy, as well as the sponsor, donor or federal guidelines)
2. Verifying that chartfields are consistently and accurately utilized to record financial transactions
3. Developing and documenting processes and ensuring that internal controls are in place
4. Confirming that financial activity is reconciled to the central M-Pathways system on a regular basis

Expenditures should be managed in conformity with the original budget or where changed circumstances require the use of resources that differ from the original plan, the deviation should be clearly explained and a plan articulated to financially support these changes. Since rebudgeting processes and budget variance explanation requirements can differ by unit and by type of fund, units should clearly define this aspect of their financial operations.

The consistent and accurate use of chartfield values is critical to the University’s financial reporting at all levels, from the overall University to the department to the project grant. Chartfields represent a series of individual values, which, in a sequence, describe a specific activity. Chartfields include values for fund, department ID, program, project/grant,
C. Faculty and Staff with Delegated Financial Authority (including Project Directors and Principal Investigators)

Individuals who are assigned responsibility for any financial activity (including Project Directors, Principal Investigators, Unit Liaisons and Administrative Associates) should clearly understand the financial authority that accompanies this responsibility (e.g., budget, level of authority to make expenditure decisions, etc.). In most cases, this financial authority is granted to an individual who is assigned one of the following two roles: 1) the role of a Project Director (which is assigned to every project/grant within the University) or 2) the role of Department Manager (which is typically assigned to all chartfield combinations without a project/grant or a project director).

The sponsored project environment deserves special mention since this environment places the responsibility for financial management in the hands of many faculty who are not heads of units or in executive management positions. A Principal Investigator (PI) role is typically associated with grants and contracts awarded to the University by external sponsors (e.g., the federal government). While a sponsored project may have several co-investigators, there is only one investigator assigned the PI role and the University designates that individual as the Project Director. The PI is the individual with the ultimate responsibility for the administrative and programmatic aspects of the project including ensuring funds are spent in accordance with University and sponsor guidelines.

As all sponsored projects are formally awarded to the Regents of the University, the PI is always acting as an agent of the University. Consequently, a PI may not enter into any agreement without approval of the dean, department chair and the Division of Research Development and Administration (DRDA), who collectively represent the University’s interests. In addition, the Office of Contract Administration has the delegated authority to sign sponsored contracts on behalf of the University.