
Subject: Fiscal Responsibility

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1. Purpose

Fiscal responsibility requires the establishment of internal controls that include organizational processes and procedures designed to verify the integrity, accuracy, and reliability of accounting data and other management information. Internal controls are the system of checks and balances that prevent or detect errors and irregularities; ensure compliance with university policies and procedures and state and federal laws and regulations; and safeguard university assets. Errors and irregularities include, but are not limited to, data entry errors, duplicate payments, and inappropriate, unallowable, unreasonable, or fraudulent transactions. Internal controls must be implemented on a university wide and organizational unit level.

Preventive controls include hiring competent administrative personnel and providing adequate training to develop expertise in university fiscal and administrative policies and procedures, and applicable state and federal laws and regulations. Additionally, such controls include establishing departmental business processes with appropriate levels of authority, responsibility, and segregation of duties. This ensures transactions are properly reviewed and authorized and that no one person has the ability to control financial transaction(s) from start to finish. The ability to have total control over transactions increases the risk of fraud, errors, and irregularities to occur and not be detected.

One of the most important internal controls to **detect** fraud, errors, and irregularities is the independent after-the-fact review or reconciliation of financial transactions. Human review and judgement is required, as no system can be designed to automatically detect all inappropriate, unallowable, or unreasonable transactions. In order to maintain the integrity of university's financial information, managers are responsible for conducting all business activities in their organizational unit in a manner consistent with good internal controls, including establishing appropriate segregation of duties. Adequate discharge of this responsibility requires that managers establish procedures and ensure these procedures are properly executed to monitor and review revenues and expenditures recorded in the funds (accounts) assigned to their organizational unit on an ongoing basis.

2. Policy

Departments shall perform monthly reconciliations and reviews of financial transactions, including revenues and expenditures recorded in the funds assigned to their organizational unit. The monthly reviews and reconciliation should cover the activity recorded in the funds during the prior month. Although the Controller's Office does not prescribe how such reviews and reconciliations should be performed, managers can refer to Controller's Office Procedure 10305a: Review of Financial Activities (https://www.controller.vt.edu/content/dam/controller_vt_edu/procedures/accountspayable/10305a.pdf) for guidance on performance of the monthly reconciliations.

Managers should establish departmental procedures to ensure that monthly reports received from the Banner finance system reflect the following:

- all expenditure items are complete and accurate and include only transactions properly authorized and approved for payment by the manager (or other **authorized approvers** for such funds),
- all expenditures are allowable, allocable and reasonable and comply with applicable federal and state laws and regulations, university policies and procedures, and the specific requirements of grantors, and
- all revenues collected (if applicable) for the organization have been properly secured, deposited into the appropriate university bank account in accordance with Policy 3600, Funds Handling and Deposit of State and Local Funds (<http://www.policies.vt.edu/3600.pdf>), and appropriately recorded in the Banner system.

If the review or reconciliation process detects an omission of appropriate transactions or charging and recording of any inappropriate transactions, managers are responsible for ensuring corrections are made within sixty (60) days of the original posting date in Banner. Therefore, managers are strongly urged to complete their reviews soon after the close of each month. Under exceptional circumstances, if an error detected during the reconciliation process is not corrected within sixty (60) days of the original posting date, then departments must maintain supporting documentation to demonstrate that corrective actions have been initiated for timely correction of error.

In unusual and unforeseen circumstances, a corrective transfer beyond sixty (60) days may be appropriate for sponsored projects, as described in Policy 3255, Cost Transfers on Sponsored Projects (<http://www.policies.vt.edu/3255.pdf>).

The manager can delegate all or a portion of this monthly review to other qualified personnel; however, the manager is ultimately responsible for the performance of the monthly reviews for all funds assigned to their department or organization. For specialized funds, such as sponsored projects, the review must be done in conjunction with the principal investigator.

The manager must ensure that the reconciliation and reviews are conducted with appropriate segregation of duties which requires at least two personnel – a preparer and a reviewer. The reviewer must be someone other than the person who initiated or processed the expenditures or revenue transactions. Monthly reviews and reconciliations must be certified by the preparer(s) and the reviewer as prescribed in Controller's Office Procedure 10305a: Review of Financial Activities (https://www.controller.vt.edu/content/dam/controller_vt_edu/procedures/accountspayable/10305a.pdf). Documentation for the review and certification must be maintained in accordance with Policy 2000, Management of University Records (<http://www.policies.vt.edu/2000.pdf>). Management should be vigilant for repetitive errors as these may indicate problems with departmental business processes or identify additional training needs for administrative staff.

Managers are accountable for setting the appropriate tone of intolerance for fraudulent acts by displaying the proper attitude toward complying with laws, rules, regulations, and policies. In addition, managers should be cognizant of the risks and exposures inherent in their area of responsibility, be familiar with the types of improprieties that might occur within their area of responsibility, and be alert for any indication of irregularity. An essential component of the reviewer's role is to identify errors, anomalies, potential compliance issues, and significant budget variances. Additionally, reviewers should perform their work with a questioning mind and be alert to the possibility of detecting errors or inappropriate transactions.

If during the monthly review, irregular or suspected fraudulent transactions are detected, appropriate actions should be taken in accordance with Policy 1040, Reporting and Investigating Suspected Fraudulent Activities (<http://www.policies.vt.edu/1040.pdf>).

Failure to comply with the Fiscal Responsibility policy may result in disciplinary action.

3. Procedures

This policy applies to all units and all managers within the university regardless of the source of funds used in support of that unit. Procedures to assist in compliance with this policy can be found in Controller's Office Procedure 10305a: Review of Financial Activities (https://www.controller.vt.edu/content/dam/controller_vt_edu/procedures/accountspayable/10305a.pdf) and the internal controls section of the Departmental Business Management Guide (<https://caf.vt.edu/businesspractices/conductstand/dbmg/intcont.html>).

Should the monthly review detect items needing correction (due to clerical errors, unallowable charges to sponsored projects, etc.), journal entries or cost transfer entries should be prepared timely and shall include adequate documentation, justification, and approvals for any transfers of costs (expenditures) or revenues. Cost transfers related to grants and contracts funds should be made in accordance with the requirements of Policy 3255, Cost Transfers on Sponsored Projects (<http://www.policies.vt.edu/3255.pdf>).

General considerations for review may include but are not limited to:

- compare current period to similar time frame, and if necessary investigate unusual and significant variances by reviewing source documents
- ensure all expenditures are an appropriate use of university monies and reasonable for the nature of the department and department size
- verify transactions were properly initiated, authorized and posted in a reasonable time period
- scan monthly reports for unusual amounts and vendors
- ensure ALL funds have been included by verifying report parameters and page continuity (i.e. sponsored projects, recovered overhead, local funds, study abroad, etc.)

4. Definitions

DETECTIVE CONTROLS are internal controls designed to search for and detect errors and irregularities which may have occurred.

MANAGERS include but are not limited to vice presidents, deans, department heads, department chairs, directors, or similarly titled administrative managers of every university organizational unit.

PREPARER is the individual who performs the reconciliation and prepares documentation for review and approval.

PREVENTATIVE CONTROLS are internal controls designed to discourage or pre-empt errors or irregularities from occurring.

RECONCILIATION is the systematic process to examine or reexamine financial activity recorded in the Banner systems to verify that charges and credits are accurate, complete, and appropriate. This process usually compares transactions to source documentation to verify accuracy of postings. Discrepancies, including charges or credits posted incorrectly or pending transactions that did not post as expected, must be documented. Documentation must include the time frame for expected resolution. As appropriate, charges and credits on the fund must be supported by documentation filed in the department or filed centrally or maintained electronically in central administrative systems.

REVIEWER is the Department Head or Business Manager who has the knowledge to review and approve the reconciliation performed by the preparer and verify the adequacy and reasonableness of the charges and credits posted to the fund.

SEGREGATION OF DUTIES is an essential internal control that prevents or detects errors and irregularities by separating the responsibilities for initiating, processing, and recording of financial transactions and custody of related asset between two or more competent and qualified individuals. Effective segregation of duties provides reasonable assurance that transactions are processed according to university policies and procedures.

5. References

Controller's Office Procedure 10305a: Review of Financial Activities

http://www.controller.vt.edu/content/dam/controller_vt.edu/procedures/accountspayable/10305a.pdf

Policy 3600, Funds Handling and Deposit of State and Local Funds

<http://www.policies.vt.edu/3600.pdf>

Policy 3255, Cost Transfers on Sponsored Projects

<http://www.policies.vt.edu/3255.pdf>

Policy 2000, Management of University Records

<http://www.policies.vt.edu/2000.pdf>

Policy 1040, Reporting and Investigating Suspected Fraudulent Activities

<http://www.policies.vt.edu/1040.pdf>

Department Business Management Guide, "Internal Controls: The Key to Good Business Practices"

<http://caf.vt.edu/businesspractices/conductstand/dbmg/intcont.html>

6. Approval and Revisions

Approved February 28, 1999, by Vice President for Finance and Treasurer, Raymond D. Smoot, Jr.

- Revision 1

Policy underwent a complete revision and expansion in all significant areas. Key changes include expansion of the importance of internal and preventive controls; enhanced guidance on the content of departmental reconciliation procedures; inserted applicable definitions and referenced companion university policies and procedures.

Approved January 26, 2018, by Vice President for Finance & Chief Financial Officer, M. Dwight Shelton, Jr.