

## Procedure 1101PR.02 Financial Review and Internal Controls

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### 1 – Financial Control and Review Requirements

#### Internal Control Concepts

**Internal controls** are methods and procedures used to:

- Produce reliable financial information
- Promote effectiveness and efficiency of operations
- Ensure compliance with applicable regulations and University policy
- Safeguard University assets (minimize financial and other risks)

**Control procedures** should observe the following principles:

- **Authorization limitation:** Transaction authorization responsibility should be limited to the business manager and his/her designee(s). The number of authorizers within any given department should be minimized to ensure efficient operations while maintaining fiscal and policy integrity. Any delegation of transaction approval authority should be documented as stated in [Policy 1104, Signature Authority and Delegation of Approval Authority for Financial Transactions](#)
- **Separation of duties:** At least two people should be involved in processing a transaction. No one person should have the ability to initiate, approve record, review and physically control a transaction. **Note:** When these functions cannot be separated due to limited staff resources, it is the business manager’s transaction, or the transaction does not require approval prior to processing, a secondary review of transactions. By using the Activity Review Report, EMS Monitoring Report and Review Tool a department/section should perform periodical reviews by an individual who is not the initiator of the transaction and who has a clear line of authority or responsibility for the transaction.
- **Review of financial statements:** Financial statements and transactions must be reviewed on a timely basis. The individual reviewing an account must have knowledge of the transactions and a clear line of responsibility for the account.
- **Record retention:** The department must maintain documents and records in accordance with institutional record retention [Policy 1105 Retention of University Financial Records](#) and [Record of Retention Requirements Matrix](#)
- **Physical controls:** The department must maintain proper physical control over its assets and records.

- The cost of implementing and maintaining controls, whether measured in terms of monetary value or staff time and effort, should be proportional to the associated risk, and not exceed the expected benefits.

Refer to [Internal Control Framework](#), [Controls and Business Process Questionnaire](#), [Record Retention Policy](#), [Record Retention Requirements Matrix](#), and [Financial Review Guidelines](#) for more information.

## Roles and Responsibilities

All individuals who are involved in business transactions within the University have a fiduciary responsibility to safeguard the assets of the institution and ensure the integrity of its accounting records.

University Office or Department	Responsibility
<b>Controller's Office</b>	Establish clear guidelines, policies and procedures for use in transaction processing and review. Provide assistance and recommendations to departments.
<b>Institutional transaction processing centers (e.g., Accounts Payable, Payroll, Business Service Center (BSC))</b>	Assure adherence to institutional policies when processing transactions (E.g. issuing payments to vendors and employees).
<b>Business Managers</b>	Maintain appropriate use and control of the funds entrusted to them, including the following: <ul style="list-style-type: none"> <li>○ Ensure that transactions originating in the department are appropriate, accurate, and in agreement with University and department policies and procedures.</li> <li>○ Establish separation of duties to the extent possible; obtain secondary approvals or review when required.</li> <li>○ Ensure compliance with record retention policies.</li> <li>○ Conduct monthly review of accounts, using the Financial Management Checklist, to assure accuracy, validity and completeness.</li> <li>○ In larger departments, business managers may delegate some review tasks. However, overall responsibility for complete review resides with the business manager of the unit.</li> <li>○ Distribute the Account Holder Report to account owners.</li> <li>○ Safeguard physical and intellectual assets and records against theft, fire, water damage, etc.</li> <li>○ Monitor movement of equipment.</li> <li>○ Ensure physical inventory of assets by a person who does not have custody of those respective assets.</li> </ul>
<b>Transaction Approvers</b>	Approve transactions and ensure compliance as follows: <ul style="list-style-type: none"> <li>○ Confirm compliance with University and sponsor policies, and terms and conditions of the account (if applicable).</li> <li>○ Confirm availability of funds, and appropriateness of accounting information and source of funds.</li> <li>○ Review basic transaction information to ensure it is appropriate, reasonable, and complete.</li> <li>○ Verify delegated authorities.</li> </ul>

<b>Transaction Preparers</b>	<p>Prepare transactions and ensure compliance as follows:</p> <ul style="list-style-type: none"> <li>○ Provides appropriate documentation for transactions.</li> <li>○ Verifies that transactions contain appropriate and complete transaction information and description (WHO, WHAT, WHERE, WHEN &amp; WHY).</li> <li>○ Provides valid and appropriate account(s).</li> </ul>
<b>Transaction Initiators</b>	<ul style="list-style-type: none"> <li>○ Have first-hand knowledge of how the expense benefits the account charged, is appropriate and allowable based on the funding source.</li> <li>○ Have reasonable assurance funds are available. Initiators may need to consult their business support office if they are unsure.</li> <li>○ Gain assurance that the expense is allowable per sponsor policies and the terms and conditions of the account (if applicable), and is consistent with University policy.</li> <li>○ For sponsored awards, Initiators other than the Principal Investigator, must be authorized by the Principal Investigator to initiate transactions on the account. The authorization must be documented in the award file. Departments may optionally use form <a href="#">1310 FR.05 Delegation of Initiator Authority for Sponsored Projects</a></li> </ul>
<b>Financial Reviewers</b>	<ul style="list-style-type: none"> <li>○ Reviews basic transaction information to ensure it is appropriate, reasonable, and complete.</li> <li>○ Reviews appropriateness of accounting information and source of funds.</li> <li>○ Verifies delegated authorities, where needed.</li> <li>○ Performs detailed transaction reviews, where needed.</li> </ul>
<b>Account Owners</b>	<ul style="list-style-type: none"> <li>○ Review Account Holder Report Package (minimally Summary and Payee Trend Reports) and follow up on potential issues, as needed.</li> <li>○ Account owners may be identified as department heads, principal investigators, program leaders, and/or project or task managers.</li> </ul>
<b>University Auditing</b>	<ul style="list-style-type: none"> <li>○ Serve as an independent unit responsible for monitoring University departments to assure compliance with established policies and procedures.</li> </ul>

## Documentation of Transactions

### Documentation:

Departments must provide appropriate transaction documentation at the time the transaction is processed. Documentation must be available for later review, if needed. Refer to the [Financial Review Guidelines](#) for detailed information on the appropriate location of transaction documentation. Please note that it is not necessary to attach transaction documents to monthly financial reports.

### Documentation of Review

After completing the monthly financial review and distributing Account Holder Reports, business managers must complete and sign the [Financial Management Checklist](#) to confirm completion of monthly financial statement review. Attach notes as needed to substantiate any corrective actions taken. Retain

this checklist in department files. Please note that institutional offices may ask to review monthly checklists on a periodic basis.

## Document Retention Periods and Storage

Documentation must be retained in accordance with the record retention policy that is appropriate for the account. After their record retention requirement has expired, departments must ensure that locally stored records are securely disposed of. Please note that record retention policies vary across different types of funds.

Relevant Record Retention Policies include:

[Record Retention Policy](#)

[Record Retention Requirements Matrix](#)

[Financial Review Guidelines](#)

[University Manuscripts and Archives](#)

Departments should not locally store those documents that are retained centrally per the Financial Review Guidelines for a period longer than 90 days following the month in which the transaction was processed.

There are a limited number of sponsored agreements with more restrictive terms and conditions than University policy. Please contact GCFA for more information on these limited exceptions.

## 2 –Pre-Closing & Monthly Financial Review Activities

### Overview

The [Financial Management Checklist](#) describes a series of steps that should be included in the standard financial review process. Detailed information on each of these steps is outlined below.

The Controller's Office recommends the use of the following Data Warehouse tools to assist in these processes:


- Activity Review Report
- EMS Monitoring Report
- Review Tool

These reports are located in the Portal, under the Finance Folder in the Review Tools section.

### Review Suspense Account Activity

- **Review & Clear Labor Suspense:** Project 0300018 includes salary charges to the labor suspense account for reasons such as:
  - No PTAE0 was entered on the time sheet or labor schedule.
  - The award entered on the time sheet or labor schedule is closed.
  - The labor was charged after the end date of the award.

The department must transfer labor suspense charges to the appropriate account with a Labor Distribution Adjustment (LDA), and take appropriate corrective action to ensure that future charges are accurate, such as entering a new labor schedule.

 *If using the Review Tool view your labor suspense transactions using the Review Tool by selecting the **Labor Suspense** button. Departments should review these transactions during the month and take the appropriate action to reduce errors at the close of the fiscal month.*

- **Review & Clear A/P Bounces:** Invoices that have the appropriate approval, but have invalid or missing PTAE0s, AP will proceed with vendor payment and charge it as follows:
  - Invoices of \$100 or less are automatically paid and charged to the department or section in the University-wide default AP "**bounce**" account (project 1001283 - AP PTAE0

Bounces), which is linked to their GA award. The department or section must transfer the charge to the appropriate account with a JSA transaction, particularly if the charge is allocable to a sponsored award.

▲ *If using the Review Tool, select the **A/P Bounces** button. Departments should review these transactions during the month and take the appropriate actions to reduce errors at the close of the fiscal month.*

- **Review & Clear A/P Holds:** Invoices that require department approvals or valid PTAEO charging are placed on “hold” by Accounts Payable. These invoices on hold are not paid until the department takes appropriate action. AP Holds must be viewed, approved and processed via the AP Worklist.

▲ *If using the Review Tool, select the **A/P Holds** button to review invoices on hold. See <http://www.yale.edu/procurement/ap/InvoiceHolds.htm>, which explains why invoices are placed on hold and the appropriate action(s) to be taken. Departments should review these transactions during the month and take the appropriate actions to reduce holds at the close of the fiscal month.*

## Preview Salary Information

- **Run Monthly and Weekly Payroll Preview Reports** to ensure that changes (hires, terminations, leaves, salary changes, etc.) have been processed and that all potential suspense transactions are corrected prior to the month end closing. Note that the reports include a “Suspense Only” view to display salary charges that may go to suspense.
- **Run BUG311a Semi-Monthly Labor Commitments Exception Report** to identify semi-monthly payroll transactions for which charging PTAO’s have, or will be, expiring. Take action to correct the PTAO before the payroll is run.

## Transaction Review

Good judgment and common sense are the guiding principles for performing an efficient and effective financial review of transaction activity. The following guidelines provide a standard framework for the transaction process, and suggest example questions that a typical financial review might include.

### Transactions Recommended for Financial Review

After-the-fact financial review is recommended for the following transactions. These transactions are listed on the Activity Review Report

1. Expense Reports – Those where no departmental approval was required prior to processing
2. SciQuest – Those where no departmental approval was required prior to processing
3. OK-to-Pay Invoices
4. Sub-Award Payments
5. Shipping Transactions
6. Internal Service Provider (ISP) Transactions
7. Transactions classified as typically high-risk:
  - a. “Unallowable” Expenditure Types
  - b. Typical F&A Expenditure Types on Sponsored Awards
  - c. “Miscellaneous” Expenditure Types
8. Non-ISP JSA & LDA Transactions (Journal Entries) approved outside of the dept
9. Inter-fund Transfers, and Income & Expense Reclassifications
10. “Miscellaneous” Revenue

### Process Guidelines

Using the Activity Review Report located in the Data Warehouse Portal:

1. Review basic transaction information for reasonability and appropriateness, and consider the typical questions that a financial reviewer might ask, such as:

- Is the business purpose and/or transaction description thorough and appropriate (WHO, WHAT, WHERE, WHEN, WHY)?
- Are the vendors typical and appropriate for the account?
- Is the amount of the transaction reasonable in light of the type of expense and/or the vendor?
- Are the Initiator (for sponsored awards), Preparer and Approver names complete and appropriate, and is it reasonable that these individuals would be initiating, preparing or approving transactions on the account?
- Is the expense type used, typically considered a “high risk” area? (i.e., “Misc”, “Unallowable,” etc.)
- Does the transaction “look familiar” (i.e., does it appear to be a duplicate)?

**Those transactions that the financial reviewer believes require further analysis should be reviewed on an individual basis (see step 2 below). Not all transactions will require individual review.**

2. Reviewing transactions on an individual basis may include some (or all) of the following steps:
  - Review transaction documentation
  - Review original transaction information and/or documentation (if a journal entry)
  - Discuss the transaction with Initiator, Preparer, and/or Approver
  - Contact internal service provider for documentation or information
  - Contact appropriate central unit or subject matter expert for guidance
  - Contact the vendor for information
  - Locate reference to relevant policy, if needed
  - Escalation
3. Take corrective action, where needed. Specific actions might include:
  - Update PTAE0 information on PO, VIP #, stockroom card, etc.
  - Update Initiator or Preparer reference information
  - Update delegation documentation
  - Identification of training opportunities
  - Initiate cost transfer to proper account

## Ongoing Monthly Maintenance

The following activities should be performed on an ongoing basis:

- Update labor schedules to reflect any status changes.
- Authorize pending JSA and LD batches.
- Review unprocessed and unapproved EMS transactions (EMS Available Charges Report).
- Periodically review P-card holders and limits (P-card Card Holder report in Portal; formerly BUG701a).
- Periodically review EMS Approvers (BUG112a - 5a EMS Signing Limits).

## Schedules, Deadlines and the Countdown to Monthly Closing

As the end of the fiscal month approaches, business managers and business office staff should be aware of all relevant processing deadlines and posting schedules including JSA and LD batch approval cutoff times, Internal Service Providers (ISP-SFTP), Payroll processing, EMS processing, HR changes, and Labor Schedule changes. Refer to the [Month End Closing Calendar](#) and [Pay Schedules](#) for complete monthly deadlines.

Note that the following will **not** appear in monthly financial statements:

- JSA batches that have not been approved
- Labor distribution adjustment batches that have not been approved
- Certain ISP transactions that have not yet posted
- Purchasing card transactions that were not received from the bank, or have not been approved through EMS

## 3 – Financial Management & Month-End Activities

### Overview

On a monthly basis (quarterly basis where noted) business managers should complete the steps outlined below. These procedures are designed to:

- Ensure that financial information accurately reflects the organization's activity
- Identify possible inaccuracies through the comparison of actuals to established budget guidelines
- Identify and resolve or define action to be taken for balance deficits
- Use the [Financial Management Checklist](#) form as a minimum guide to ensure that all required monthly financial review steps have been completed. Please note that each task has been completed. Use the "Remarks" section to log special notes and document significant corrections to the financial reports that will be recorded in the subsequent fiscal period. Be sure to complete the bottom of the checklist form, then sign and date the form. This checklist must be retained in the department business office along with other records pertaining to the fiscal period being reviewed.
- Review overall Expense Report activity using the EMS Monitoring Tool.

### Review of Budget Variances & Fund Balances

Review **budget variances**. Run the Account Holder or Position Plan Report at the level at which the budget was developed to determine if actual activity matches budgeted plans. Variances may indicate errors or misstatements. Document any significant variances (over- or under-budget). This includes any projects with a zero budget that will be funded at fiscal year-end by another source such as a gift.

**Please Note:** Entering and maintaining budget information in a University budget tool (such as OFA or FMT) is required in order to ensure significant variances are identified in a timely manner. If use of one of these budgeting tools is not in place in your department, please contact your Budget Analyst.

Review **fund balances**. Note and resolve any deficits at the project/award intersection for all source groups except General Appropriations (GENAP). Since GENAP does not typically carry a fund balance, make sure that GENAP activity is reasonable and appropriate.

▲ *If using the Review Tool, Select the **Review Fund Balances** button. A negative balance in the right column (other than General Appropriations) signifies a deficit. Determine when and how to clear each deficit.*

Review **grant award balances**. For any deficits note in writing how the deficit will be cleared (continuation award, department funds, etc.). If the award ended three or more months ago, all final entries should be made and the Financial Status Report (FSR) should be filed with GCFA. If the award cannot be closed in the subsequent month, note in writing the reason for the delay.

▲ *If using the Review Tool, select **Award Summary**. The oldest awards will appear at the beginning of the list. In this report view the amount funded, the inception-to-date expenses, the dates of the award, and the Principal Investigator. This report also shows commitments and trends to help you anticipate overspending or under spending. Select **PI Summary** to view a summary of grant status organized by Principal Investigator.*

### Quarterly trend and activity reviews

Review **activity trends** over the last twelve months. Compare current period balances with previous period balances in order to identify inconsistencies. Research (and resolve when necessary) any unusual or unexpected activity.

▲ *If using the Review Tool, select **Review Trend Balances**. You can limit your selection to a specific project or organization to check at a more granular level. You can also include payee information by selecting Show Payee Info once in the report.*

*Other reports include the Account Holder Payee Trend Report and BUG 402a-Compare Period Actuals*

Compare **source group activity** to the prior year. For any significant changes, investigate the reason and write a brief description in the Remarks section of the Financial Management Checklist.

- ▲ *If using the Review Tool, select the **Source Group Comparison** button to compare the year to date balances for the selected period this year with the same period last year. The report will show the dollar and percent difference for each expenditure type, for each source group. This report should agree with the fixed format report **Summary of Activity by Source Group** (see below). This report is particularly useful when analyzing organizations or source groups that do not have budgets in MP0. If you need to research any items, go back to the Review Transactions section and the button to limit expenditure type in the results.*

Run **Summary of Activity by Source Group** (titled Summary of Activity for Period, Source Group Summary, Operating Detail and Non-Operating Summary) by major object code. This statement is a cross-source statement of revenue, expense and change in fund balance that provides an overall financial perspective for an organization at the hierarchy selected. Make sure revenue, expense and net change per source group matches your expectations. Investigate any discrepancies.

Review **Asset and Liability balances (If applicable)** see [1310 QS.02 Asset and Liability Reconciliation](#). Verify that:

- Petty Cash and Advance Disbursement for Study Subject accounts are active
  - Travel and Expense Advances must be cleared by submission of the appropriate form no later than two weeks (10 business days) after the end date of travel, or two weeks (10 business days) after the occurrence of the expense. Follow up as needed.
- ▲ *If using the Review Tool, select Review Assets & Liabilities. Reconcile the information to supporting detail as needed.*

## Distribute Reports

Individuals defined as Account owners and those that have budgetary responsibility for a project, task, award and/or organization must receive monthly financial statements. The University standard report for distribution to these individuals is the Account Holder Report Package. The Account Holder Report can be run by either Person and by PTAO. Both versions are available in the Data Warehouse Portal Financial Reports folder for scheduling, or running on demand. Alternatively, distribution can contain the Position Plan Report with Account Holder by PTAO transaction detail, payee trend and/or commitment reports.

For specific questions regarding the Account Holder Report, please email [ga.usersupport@yale.edu](mailto:ga.usersupport@yale.edu). Demonstrations showing how to run the Account Holder Report in the Data Warehouse Portal are available on the [Monthly Financial Review](#) website.

## Completing the Review Process

- Complete the Financial Management Checklist, noting the tasks that have been completed and any follow up action that is required.
- Document that you used the Controller's Office recommended process (the Review Tool and other referenced reports on the Financial Management Checklist). If custom or locally developed reports are used and/or distributed in addition to the institutionally provided standard reports, these reports must be reconciled to the institutional reports of record. You must also note the reports and processes that were used in your review and register your process with your appropriate BOLT member.
- If significant issues or inappropriate activities were discovered in the course of the review, contact the Controller's Office.
- If significant deficits exist, notify your Dean or Department head.
- Sign and date the checklist. Retain the form in the department financial files along with other reports and documents that support the review process.
- Distribute Account Holder reports.

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The official version of this information will only be maintained in an on-line web format. Any and all printed copies of this material are dated as of the print date. Please make certain to review the material on-line prior to placing reliance on a dated printed version

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