

Comprehensive Standard 3.10.4

The institution exercises appropriate control over all its financial resources.

 X Compliance Partial Compliance Non-Compliance

Financial Resources

The Office of the Vice President for Finance provides professional audit, budgeting, financial management, and accounting services in support of the university's mission. The vice president for finance manages the traditional financial infrastructure for the university and provides cash management and treasury operations, investment execution and tracking, accurate and timely financial reporting, expenditure control, and a full array of other financial services.

Organizationally, the Office of the Vice President for Finance oversees audit services, budget and financial planning, financial systems, and financial administration, which include the Bursar's Office and the controller's office.

The controller's office objectively records and reports the financial status and related financial information of the university and its affiliated and related corporations in accordance with statutory and regulatory requirements. It also provides basic financial information and analyses to facilitate management decision making at all levels of the institution. Other responsibilities include the preparation and distribution of financial statements, the disbursement of funds for goods and services, and the provision of expert accounting services and advice to the university community. The controller's office is appropriately staffed by a cadre of highly skilled accounting professionals.

The controller's office is also responsible for establishing and communicating policies and procedures to ensure the proper and efficient use of university financial resources [1]. This includes, but is not limited to, maintaining the university's accounting and financial reporting systems and subsystems, processing payroll charges, and ensuring the prompt and proper settlement of accounts owed the university.

The controller's office is responsible for establishing policies and procedures to ensure accurate accounting for endowment funds, donor reporting, annual spending budget calculations, and compliance with donor intent. These policies and procedures are necessary to ensure the most effective use of resources [2].

The Bursar's Office is the collection agency of funds for the university, and it is responsible for establishing policies regarding the safeguarding of cash [3] [4]. The majority of university funds are transmitted to the Bursar's Office for deposit with the bank. The Bursar's Office is also responsible for student billing and collection of tuition, housing, and fees.

Operating Budget

Budgetary control is exercised throughout the fiscal year by both periodic management review and analysis at a macro level and by daily automated procedures at the individual-transaction level.

Management review and analysis of the budget is conducted on either a monthly or quarterly basis, depending on the nature of the review. These budget reviews are conducted by various groups at varying times: deans, vice presidents, university budget staff, and the university leadership team. Actual-to-budget variance reports are reviewed along with a number of different ad hoc analyses on specific revenue and expense areas, programs, and initiatives. Actual financial performance that exceeds a reasonable operating variance is further investigated. If problems are confirmed, corrective plans and actions are developed and communicated, and the results of such actions are monitored and reported in future reviews.

Daily processing of financial transactions is monitored in both purchases and disbursements. The approved operating line-item budget, aggregated by organizational operating entity, is loaded into the Oracle computerized financial management system. The purchasing office and the controller's office then use a budget checking feature available in the automated financial accounting system to accept or reject individual purchase or payment requests from units throughout the university. Requests that do not pass "budget check" are returned to units for appropriate revision of either their spending decisions or the associated unit's budget.

For ongoing management control and to assist units and university staff in reviewing and managing budgetary control, a number of expenditure and budget reports are available to unit business managers, department chairs, deans, and vice presidents. These standardized reports are maintained in a data warehouse separate from the official computerized financial accounting system and are updated on a daily basis. Also, special reports are available on an ad hoc basis from the financial systems office. When review and analysis of available reports and operations identify potential budget issues, such ad hoc reports may be tailored to extract specific data for examination in a number of different formats, perspectives, or roll-ups.

On a regular basis the Office of Budget and Financial Planning prepares a battery of reports of actual-to-budget performance for both revenues and expenses. The office also prepares executive summaries of these reports for the university leadership and conducts periodic and special analyses in specific areas of budget emphasis or concern. Furthermore, the Office of Budget and Financial Planning is responsive to the university leadership team, deans, vice presidents, and other organizational managers in preparing special analyses and budget reports when requested.

When appropriate, budgets are revised during the fiscal year through a formal budget revision process managed by the Office of Budget and Financial Planning. A unit's dean or vice president must request all budget revisions. The vice president for finance has authority to approve revisions up to \$25,000. The president or provost must approve all other requests. These approved budget revisions are entered into the computerized accounting system so that reports and analyses use only the most current data. When adjustments to the budget are recurring, the

Office of Budget and Financial Planning also maintains a formal procedure for incorporating these adjustments into the budget development process for future years.

The Office of Budget and Financial Planning also manages the budgeting of capital projects in the university's plant fund. It performs unit, program-specific, and university-wide analytical studies and maintains aggregate reports of major budget issues. The office also provides budget and financial reports to the senior management, responds to information requests by internal constituencies and the Council on Postsecondary Education, and researches and analyzes budget and actual trend data.

Endowment and Gifts

University Advancement is U of L's fundraising arm, and it solicits, receives, and records gifts from donors. The controller's office calculates the annual budget for these funds based on the gift amount (in the case of an outright gift) or 5.5 percent of the three-year moving average of market value (in the case of endowments). The annual spending rate for endowments is established by the Board of Directors of the University of Louisville Foundation Inc. (ULF). The Office of Budget and Financial Planning coordinates with each unit to ensure that expenditures are realistic and in compliance with board-approved spending policies.

On select endowments, vice presidents and deans prepare annual stewardship reports that briefly explain how the funds were used by their college or school to meet program objectives and donor designations. Deans submit their stewardship reports to the university provost for central coordination and review. These are then forwarded to the president, who informs donors as appropriate. Vice presidents submit their reports directly to the president.

Treasury Management

Treasury Management is responsible for daily cash management, short-term cash investments, and banking services management for both the university and ULF. Additionally, Treasury Management executes and monitors ULF's long-term investments.

With regard to cash management, all cash is concentrated into two bank accounts--one for the university and one for ULF. Separate disbursing accounts are used for payroll, accounts payable, and ULF. All bank accounts are monitored daily for sufficient funding to cover obligations and to determine availability of cash for short-term investments. All electronic fund transfer (EFT) payments are executed via the university's depository bank's website. Security and controls employed on the website require two pre-authorized persons to approve all transactions prior to release. All incoming deposits and debits are monitored daily, and notification of a bank posting is sent within two business days to the individuals responsible for posting cash transactions to the general ledger. The university takes advantage of all EFT security measures provided by the bank to protect against unauthorized withdrawals and debits. These measures range from total blockage of any EFT debit to filtered, pre-authorized EFT debits on selected accounts. Cash from all accounts are swept daily into one of the two consolidation accounts, with the resultant balances earning overnight interest via repurchase agreements. Checks are written from only two accounts and both accounts use the bank's Positive Pay system to prevent check fraud. All

checks over \$100,000 require a second, physical signature by an additional authorized signer in addition to the mechanical signature affixed when checks are printed.

Short-term investments are governed by investment policies approved by ULF 's Board of Directors and the university Board of Trustees. Both policies are identical in all material respects, since the university follows the investment guidance established by ULF as the investment arm of the institution. The policies comply with the requirements established in Kentucky statutes for public institutions. The director of Treasury Management is responsible for day-to-day execution of short-term investments.

The only long-term investments are those of the ULF endowment. These investments are managed by ULF 's Board of Directors. The board approves and publishes investment policies and guidelines, which establish investment objectives, set asset allocation strategies and targets, establish investment manager guidelines and performance benchmarks, and establish the spending policy. ULF retains the services of an outside consultant to provide strategic and tactical investment guidance and to monitor and report on overall endowment performance as well as on individual investment manager performance. The consultant also performs manager searches when requested by the board. All recommendations for changes in allocation strategy and manager selection are thoroughly vetted by a five-person finance committee (a subcommittee of the Board of Directors). The finance committee then recommends all actions it determines to be in the best interest of the endowment to the Board of Directors for final approval. The director of Treasury Management executes all actions (hiring and terminating managers, reallocation of funds between managers, etc.) approved by the board. The director also coordinates performance reporting from all managers and the investment consultant for presentation to the finance committee at their quarterly meetings.

Grants and Sponsored Programs

The University of Louisville Research Foundation (ULRF) is an affiliated entity of U of L that was incorporated in July 1983 as a non-profit public charity under IRS Code 501(C) (3). ULRF was established for the purpose of conducting and supporting research missions on behalf of U of L. The ULRF Board of Directors is comprised of members of the university's Board of Trustees. Faculty, staff, and students who engage in grant and contract activity through a sponsored program are governed by the policies and procedures established through the ULRF. Numerous health, safety, legal, and environmental regulations pertain to grants and contracts. The following discussion focuses on the financial controls in place to safeguard and preserve the financial resources of the ULRF.

The fiscal policies and procedures established for U of L also govern the activities of ULRF. These include fiscal policies and procedures that address procurement, expenditures, asset acquisition and disposal, personnel management, and systems security. The ULRF financial system is a component of the university's financial accounting and reporting system. The accounting records for ULRF, including sponsored programs and contracts, are fully integrated within the university's financial accounting records. Financial transactions are segregated by entity and funds. ULRF cash is commingled within the university's central bank account and secured by the same banking controls. The financial transactions for the ULRF and each

sponsored program are uniquely identified and segregated within the financial system. Each sponsored program receives a specific identification for the purpose of specifically isolating each contract's assets, liabilities, revenue, and expenses for financial reporting and compliance purposes.

The accounting records for the university and its affiliates are maintained in accordance with accounting principles as prescribed by the Government Accounting Standards Board and the U.S. Office of Management and Budget (OMB) Circular A-21. An independent audit firm conducts annual financial audits of the university and its affiliates in accordance with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. An independent audit firm conducts an annual compliance audit in accordance with government auditing standards and as required by OMB Circular A-133.

Other financial controls consist of the following:

- Audit Services, the university's independent audit staff, performs regular risk-based and special audits of the policies, procedures, and internal controls governing grants and sponsored programs.
- Duties associated with the collection, disbursement, recording, and reconciliation of funds are appropriately segregated.
- Faculty and staff involved with sponsored programs undergo fiscal training designed to promote compliance with cost accounting standards.
- Sponsored contracts undergo a lengthy process of review and approval for fiscal and regulatory compliance prior to contract execution by authorized personnel.
- Budgets are established to manage major expenditure categories and to restrict total spending authority in accordance with the contract.
- Project directors associated with each contract are responsible for the review and approval of transactions consistent with the contract terms and established budget.
- A centralized accounting staff, separate from the responsible project director and project staff, oversees the billing, collections, financial reporting, and close out of grants and contracts.
- Transactions require adequate supporting documentation and approvals prior to processing.
- Contracts are managed and secured within the central grants management administration offices to ensure consistency, compliance, and proper execution prior to the establishment of a budget and spending authority within the financial accounting system.

Financial and budgetary controls over sponsored research projects are discussed in detail and documented in Comprehensive Standard 3.10.5.

Annual Tax Return

The controller's office prepares forms 990 and 990-T, including all related statements and disclosures, for the university and all associated entities. These tax returns are reviewed by an external tax consulting firm and filed with the IRS and the Commonwealth of Kentucky by November 15 of each year.

Financial Reporting

The controller's office prepares quarterly financial statements as well as the year-end financial statements. All financial statements are prepared in accordance with generally accepted accounting standards as set forth by the Governmental Accounting Standards Board (GASB) or the Financial Accounting Standards Board (FASB). The controller's office uses the standard reporting systems to generate the financial statements, and the information is saved on a network drive that is backed up every evening. Additionally, only necessary personnel have the ability to alter documents on the network drive.

The annual financial statements are audited by an independent audit firm that conducts its audit in accordance with auditing standards generally accepted in the United States of America. During the audit, the internal controls over the financial reporting process are reviewed and assessed for completeness and compliance. This includes reviewing documents to substantiate the balances and transactions recorded for the fiscal year. The university has received an unqualified opinion on all financial statements issued.

Financial control is also extended through budgetary control and financial reporting at the central level. The Office of Budget and Financial Planning is the functional unit responsible for monitoring all general fund budgets, including educational and general accounts, auxiliary enterprises, and service centers [5]. In addition to developing the university's operating budget [6] [7] and the operating budgets for the affiliated and related corporations, this office also controls all central reserve funds for the Office of the President. This high degree of centralization and positive control over discretionary funds allows the university's leadership team to know the balance of funds available at any given time across the corporate entities. This information is routinely conveyed to management on a monthly basis in the form of monthly budget status reports. Ad hoc reporting is also provided to management as requested.

Financial control is also provided through a university policy requiring the monthly reconciliation of all general fund accounts. This analysis is done at a high level, by fund group and ledger. The Office of Budget and Financial Planning prepares and publishes a series of monthly reconciliation reports that compare monthly budget control totals maintained in that office with the budgets recorded in the financial accounting system.

The Office of Budget and Financial Planning exercises further financial control through the performance of multiple varied analyses. This office is assigned responsibility for a broad array of financial inquiries, studies, and analyses at the central administrative level. Areas such as tuition revenue and fees, endowed scholarships, unfunded institutional financial aid, payroll and fringe benefits, and medical clinic operations are just a few of the many focus areas that the office examines in detail on a project basis throughout a typical fiscal year. Analysis of actual to anticipated performance, historical trend analysis, comparisons of ratios for comparable units and institutions, and statistical analysis are a few of the techniques used to determine if financial results are within normal limits and tolerances. Budget analysts also delve into unusual or extraordinary variances to identify cause-and-effect relationships and to resolve unexplained

outcomes. Corrective actions are then coordinated with the appropriate offices to correct identified financial problems.

The university currently uses the enterprise-wide Financials system that is part of the Oracle (formerly PeopleSoft) integrated enterprise resource planning (ERP) product group. The system includes purchasing, asset management, grants management, general ledger, sponsored programs billing, and accounts payable modules [8]. The general ledger module is the trial balance of the university and includes all real accounts (assets, liabilities, revenue, expenses, and net assets) and nominal accounts (fund additions, fund deductions, and budgetary control account). The other modules maintain the functionality needed to process transactions in their areas and to post those transactions to the general ledger module for both budget and actuals.

The capability to access budget and expense data is available through the financial system. The majority of financial reporting is provided using Crystal Enterprise software from Business Objects. Nightly extracts are taken from the financial system and loaded into a data warehouse. The controller's office and the Office of the Vice President for Finance have designed and made available transactional and analytical reports using information from the data warehouse. Crystal Enterprise is then used to provide these reports via a web-based platform to the university community. The reports also utilize financial feed information (such as payroll, cashiering, tuition, stores, and other internal operations) to provide a single, comprehensive source of information that allows users at all levels of the university to monitor financial activity.

The reports are grouped and organized by function and level of the university. The controller's office, for example, has assembled a set of reports that unit business managers are directed to use to reconcile monthly expenses and revenue streams. Faculty throughout the university who are principal investigators (PI) on extramural research projects are provided with a different set of reports that will allow them to monitor financial activity associated with their grants, to check the status of a grant submission, and to report their time and effort. Other groups of reports allow management at the unit and university level to monitor tuition revenue, cash balances, available budget balance, payroll encumbrances, year-end carry-over balances, and other related financial activity. These reports provide arrayed information for analytic capabilities at each level of the university as well as for specific entities or activities. The university provides financial and Oracle system training for all employees who use the system [9].

To provide independent and objective assurance that university units are following fiscal policies and procedures, Audit Services reviews and evaluates the adequacy and effectiveness of the system's internal control provided by the university. Audit Services [10] also evaluates compliance with state and federal regulations, as well as Generally Accepted Accounting Principles (GAAP).

Deloitte and Touché, LLP, served as the university's external auditors for seven years up through FY 2004. BKD, LLP, is the current external auditor and was chosen after a competitive bid process. As part of their engagement BKD issues an independent auditor's report on the university's financial statements [11].

[1] Policies and Procedures for Ensuring Proper and Efficient Use of Financial Resources
3_10_4_fn01.pdf

<http://uofl.louisville.edu/vpf/controllers/policiesprocedures/>

[2] Policy on the Management of Endowment and Similar Funds
3_10_4_fn02.pdf

[3] Cash Control Procedures
3_10_4_fn03.pdf

[4] Bursar Data Entry Instructions
3_10_4_fn04.pdf

[5] Office of Budget and Financial Planning--Main Website
3_10_4_fn05.pdf
<http://www.louisville.edu/vpf/budget/index.html>

[6] Office of Budget and Financial Planning--Budget Policies
3_10_4_fn06.pdf
<http://www.louisville.edu/vpf/budget/policies/>

[7] Office of Budget and Financial Planning--Operating Budget Index
3_10_4_fn07.pdf
<http://www.louisville.edu/vpf/budget/opbudgets/index.html>

[8] Financial Administration--Index
3_10_4_fn08.pdf
<http://www.louisville.edu/vpf/financialsys/index.html>

[9] Oracle Financial Systems Training
3_10_4_fn09.pdf
<http://www.louisville.edu/orion/training/classesWork2.html>

[10] Audit Services--Index
3_10_4_fn10.pdf
<http://www.louisville.edu/vpf/audit/index.html>

[11] FY 2004-05 Audited Financial Statements
3_10_4_fn11.pdf