



# Principles of Accountability with Respect to Financial Transactions

<b>Responsible Officer:</b>	AVP - Systemwide Controller
<b>Responsible Office:</b>	FA - Financial Accounting
<b>Issuance Date:</b>	[Issuance Date]
<b>Effective Date:</b>	[Effective Date]
<b>Last Review Date:</b>	
<b>Scope:</b>	<p>This policy applies to any person working for or conducting business on behalf of the campuses, medical centers, Office of the President, and Agriculture &amp; Natural Resources.</p> <p>This policy does not apply to Lawrence Berkeley National Laboratory (LBNL).</p>

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## I. POLICY SUMMARY

This policy provides an overview of financial accountability, financial management, data integrity, and compliance associated with financial transactions throughout the

University. Campuses should develop policies and procedures to ensure these financial transaction accountability principles are met.

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## II. DEFINITIONS

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**Financial stewardship** is defined as the responsibility for managing University resources wisely and executing these responsibilities with integrity and ethical conduct. These resources include time, money, people and property. When University employees manage public resources in an efficient, economical and ethical manner, the result will be better achievement of the University's overall missions of teaching, research and public service. Financial stewardship includes the responsibility for establishing and monitoring the system of internal control.

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## III. POLICY STATEMENT

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### A. *Background*

Under [Regents Standing Order 100.4: Duties of the President of the University](#), certain duties are delegated to the President, including the authority to redelegate any of the duties of the office, except service as an ex officio Regent.

The President redelegated certain duties to the campuses such as the authority to execute contracts, agreements and to authorize spending disbursements. For a list of duties redelegated by the President, please see the [delegation authority index](#).

The Chancellors have redelegated certain authority to departments and schools to initiate transactions. This policy outlines the requirements for individuals who have been delegated the authority to process financial transactions.

The dean or manager of each school or department, while responsible for managing the department's financial resources, will normally delegate the overall financial management administration to a Department Administrator (DA).<sup>1</sup> The DA is responsible for developing an appropriate structure for handling the department's financial resources, within the boundaries set by the controller's office, the budget office, procurement and other central units. The DA should determine how to divide or segregate the tasks among different people to reduce the risk of error and inappropriate or fraudulent actions. Segregating the tasks require dividing the responsibility for recording, approving transactions, handling the financial resources and reviewing and reconciling.

These requirements apply to department administrators and to staff at shared services units who process transactions on behalf of departments.

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<sup>1</sup> If financial management administration is already delegated to centralized administrative units (*outside* the departments), then the department **should not** delegate its financial resource management unless there is an overriding business need to do so.

**B. Financial Management**

1. Monitoring and Evaluating Financial Data

Each department head and DA must establish monitoring procedures to provide assurance that financial transactions are accurately recorded and comply with applicable regulations, policies, departmental budget plans, etc.

**C. Data Integrity**

1. Managing University Data

Financial management decisions affect every aspect of the University, but such decisions can only be as good as the data on which they are based. Consequently, each department—including shared services units—must establish and implement procedures to ensure data integrity. These procedures must be documented and provide reasonable assurance that transactions are valid, supported by proper documentation and recorded in an accurate and timely manner in the University's financial records. Each transaction must be authorized in accordance with University policies and campus practices.

2. Establishing Separation of Duties Controls for Data Integrity

No single individual shall have complete control over all processing functions for any financial transaction. If the number of employees in a department is limited, causing one person to perform multiple functions, the department must assign a second person, with the appropriate knowledge and responsibility level, to review the work for accuracy, completeness and timeliness, or combine these functions with another unit. No single individual is authorized to approve their own transaction; all transactions must be approved by someone other than the individual initiating the transaction.

3. Departmental Computing Responsibilities

If a department is operating a system or application that will handle financial transactions, the department must ensure experienced and well-trained technical professionals are supporting the department's computing needs. Such support can be contracted for or provided by a department itself through the IT department.

If a department is developing or acquiring information systems for their use, the requirements in [IS-10](#), *Systems Development Standards* must be followed.

#### **D. Compliance**

Every employee who conducts transactions that affect University funds must understand and comply with all applicable laws, regulations, and special restrictions. To ensure compliance, each department head and DA shall adopt the following practices:

1. California State Oath of Allegiance

Departments will ensure that every University employee signs the *State Oath of Allegiance*, at the date of hire, but no later than the time at which the employee begins providing compensable service. For more information, please see Accounting Manual Chapter [P-196-21](#), *Damage Payments for Services Performed Before Loyalty Oath Is Signed*, and [Campus Procedures and Frequently Asked Questions: Damage Payment for Services Performed before Loyalty Oath is Performed](#).

2. Financial Reporting

Department Staff will record transactions in compliance with applicable financial reporting requirements, including Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB) Statements, Cost Accounting Standards Board (CASB) Statements, and applicable policies and standards of the University, campuses, and medical centers.

Accounting principles must be applied consistently. Financial Management functions and departments at the campus and system wide levels are entrusted with ensuring consistent, University-wide application of these accounting principles.

Reports to sponsoring entities will be made according to the specific reporting requirements. In general, most sponsoring entities require adherence to GAAP. Additionally, federal agencies and entities which serve as conduits for federal funds require adherence to [2 CFR Part 200](#) - *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

3. Records Retention

Each DA will maintain financial records in compliance with regulatory requirements and University policy. In cases where there is pending litigation or audits, records must be maintained until the action is concluded. Financial records may be retained by a shared services unit if the unit is formally identified as the office of record. For more information on records retention, refer to the local records management coordinators, [RMP-1](#), *University Records Management Program*, and [RMP-2](#), *Records Retention and Disposition: Principles, Processes, and Guidelines*.

4. Expenditures

All expenditures must comply with applicable regulatory and legal requirements and University policy.

All expenditures and actions affecting a person's compensation must adhere to applicable regulatory and legal requirements and University policy.

5. Tax Laws and Regulations

To comply with tax regulations, each DA must ensure that appropriate personnel are knowledgeable of the various tax authority requirements applicable to their operations.

For more information, see the [University of California Sales & Use Tax Manual](#) and Accounting Manual Chapter T-182-73, *Taxes: Sales and Use Tax*.

6. Exemption from Property Taxes in California

The University is generally exempt from paying real and personal property taxes in California, as described in [G-38](#), *Tax Exemption and Refund Claims Filing for Property Leased by the University*. When necessary, the Facilities Management Department or other appropriate campus department will file the exemption reports and claims to receive refunds of such taxes paid on leased property for the departments.

7. Reporting Fraudulent or Illegal Acts

Any person who becomes aware of potential fraudulent or illegal business transactions conducted in the name of or against the University shall properly report the potential fraudulent or illegal act to the appropriate University official or workgroup. This includes:

- Any person who suspects that fraud or illegal activities are taking place in his or her department must report that suspicion immediately in accordance with the [University of California Whistleblower Policy](#).
- Individuals conducting business on behalf of the University are personally responsible for the consequences of any violations they commit.
- Individuals conducting business on behalf of the University must do so for the benefit of the University. Where a potential for personal gain exists, this potential conflict of interest must be reported immediately,

and be carefully evaluated before any financial transactions are allowed to occur.

For complete guidance on reporting irregularities, see the [University of California Whistleblower Policy](#).

8. Response to External Audits from Regulatory Agencies

Internal Audit must be immediately notified when the University receives notification of any audit or review by an external regulatory agency. Communications from regulatory agencies, donors, or other entities concerning noncompliance with laws, regulations, applicable guidelines, directives or an appropriate standard of care must be disclosed in writing to the Associate Vice President-Systemwide Controller.

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#### IV. COMPLIANCE / RESPONSIBILITIES

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Function	Responsibilities
Associate Vice President-Systemwide Controller	<ul style="list-style-type: none"><li>• Establish and update the policies set forth in this Bulletin.</li></ul>
Department Heads and Department Administrators (DAs)	<ul style="list-style-type: none"><li>• Understand all relevant regulatory requirements, the campus system, the University policies, and purpose of each transaction;</li><li>• Develop an accountability structure;</li><li>• Ensure department manages financial resources in an efficient and cost-effective manner;</li><li>• Establish monitoring procedures to provide assurance that financial transactions are appropriate, are accurately recorded and comply with applicable regulations, policies, etc;</li><li>• Develop procedures to ensure data integrity;</li><li>• Conduct transactions in compliance with applicable financial reporting requirements;</li><li>• Maintain financial records in compliance with regulatory requirements and University policy;</li><li>• Departments that conduct sales activities must charge sales tax and properly account for sales tax collected;</li><li>• Ensure cash and cash equivalents are secure;</li><li>• Ensure credit card and bank account information complies with data security handling standards;</li><li>• Departments making purchases must include a provision for sales and use taxes when making orders;</li><li>• Departments paying individuals must ensure appropriate income tax reporting, including contractors, non-resident aliens, 1099 reportable income, relocation, etc.;</li><li>• Submit accurate and timely data to Campus Payroll Office, UC PATH and/or other appropriate department;</li><li>• Have experienced and well-trained technical professionals to support the department's computing needs.</li></ul>
Shared Services Unit	<ul style="list-style-type: none"><li>• Understand all relevant regulatory requirements, the campus system, the University policies, and purpose of each transaction;</li><li>• Develop an accountability structure;</li></ul>

## Principles of Accountability with Respect to Financial Transactions

Function	Responsibilities
	<ul style="list-style-type: none"> <li>• Ensure appropriate documentation is provided that provides assurance that financial transactions are appropriate;</li> <li>• Ensure transactions are accurately recorded and comply with applicable regulations, policies, etc;</li> <li>• Develop procedures to ensure data integrity;</li> <li>• Conduct transactions in compliance with applicable financial reporting requirements;</li> <li>• Maintain financial records in compliance with regulatory requirements and University policy;</li> <li>• Sales activities must charge sales tax and properly account for sales tax collected;</li> <li>• Purchases must include a provision for sales and use taxes when making orders;</li> <li>• Have experienced and well-trained technical professionals to support the department's computing needs.</li> </ul>
Preparer	<ul style="list-style-type: none"> <li>• Understand all relevant regulatory requirements, the campus systems, the University policies, and the purpose of each transaction;</li> <li>• Enter accurate data into all fields on a transaction document or application system screen;</li> <li>• Record an accurate and thorough explanation of each transaction;</li> <li>• Ensure that the proper Full Accounting Units (FAUs) are entered;</li> <li>• Ensure that any new account and fund linkages requested are appropriate;</li> <li>• Be aware of basic policy, regulatory, and other requirements;</li> <li>• Resolve any questions which come to mind during the completion of the transaction; and</li> <li>• Provide the completed transaction, with any supporting documents, to a Reviewer.</li> </ul>
Reviewer	<ul style="list-style-type: none"> <li>• Review all transactions within a reasonable time;</li> <li>• Inspect each transaction to ensure the Preparer properly fulfilled his or her responsibilities;</li> <li>• Ensure that each transaction complies with policy, regulatory, and other requirements;</li> <li>• Resolve all questions that arise concerning a transaction, or ensure the transaction is reversed until the questions are resolved;</li> <li>• Notify the DA if he or she will be absent from work, so another Reviewer can be assigned; and</li> <li>• Notify the DA when he or she is returning to work from an absence.</li> </ul>
Chief Procurement Officer, Authorized Buyers, or Specified University Staff	<ul style="list-style-type: none"> <li>• Execute the purchases of: <ul style="list-style-type: none"> <li>○ Real estate and construction projects;</li> <li>○ Services of independent consultants; and</li> <li>○ Legal services.</li> </ul> </li> </ul>
Departments Engaged in Unrelated Business Income (UBI) Activities	<ul style="list-style-type: none"> <li>• Maintain information supporting whether or not the income is taxable;</li> <li>• Complete UBI questionnaires and worksheets for UBI activities and send them to the appropriate Campus Tax Service Coordinator, who will review and forward them to UCOP Tax Services; and</li> <li>• Account for all taxable UBI earned in an income-producing fund approved by Financial Accounting.</li> </ul>
Campus Payroll Office, UC PATH, and/or other	<ul style="list-style-type: none"> <li>• Withhold and remit Federal and State taxes on compensation based upon the individuals' Form W-4;</li> </ul>

University of California – Policy [Policy Number]  
Principles of Accountability with Respect to Financial Transactions

Function	Responsibilities
appropriate department	<ul style="list-style-type: none"><li>• Complete the required quarterly tax returns;</li><li>• Distribute Forms W-2 to employees;</li><li>• Report information on non-compensation payments to payees outside the University or University employees on annual reporting forms such as Forms 1099, 1098-T, or 1042-S.</li></ul>
Internal Audit	<ul style="list-style-type: none"><li>• Be notified when the University receives notification of any audit or review by an external regulatory agency.</li><li>• The delegation to an External Audit Coordinator depends on the type of external regulatory agency and the type of audit conducted.</li></ul>
Facilities Management Department or the appropriate campus department	<ul style="list-style-type: none"><li>• File the exemption reports and claims to receive refunds of such taxes paid on leased property for the departments.</li></ul>

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## V. PROCEDURES

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### A. *Financial Principles*

All employees with financial transaction authority redelegated to them should adhere to the following:

1. Accountability

Assigning responsibilities and maintaining information on activities so that they are traceable to the specific individual accountable for the transaction or activity.

2. Authorization and approvals

Transactions must be approved by individuals in roles at the appropriate level within the organization and who have been properly granted the appropriate authority.

3. Documentation

Transactions must be supported by documentation and the transactions should comply with University policies.

4. Physical controls over assets

Physically secure assets (equipment, inventories, cash, checks, etc.) should be periodically counted and compared to the assets on record in accordance with UC Policy.

Limit data access to individuals whose duties are aligned with their need to access the data and protect confidential information.



5. Management overrides

Prevent activities to circumvent controls or manipulate transactions, either intentionally or unintentionally.

6. Reconciliations or Ledger Vouching

Ensure the completeness and accuracy of transactions and timely investigation of any discrepancies. Promptly and regularly match transaction data from source systems to destination systems.

7. Supervisory oversight

In conjunction with the fiscal close across all locations, University policy requires a signed “Fiscal Close Certification Letter” from those with fiscal responsibility. The letters are intended to enhance the level of integrity in the financial reporting process by demonstrating due diligence by those with fiscal responsibility. This letter is a component of a broader program to enhance the integrity in the fiscal closing process, ensure disclosures are adequate and provide an avenue for all relevant issues known by campus management to be considered by those responsible for signing the overall campus management representation letter (i.e., the Chancellors, Executive Vice Chancellors, Vice Chancellors-Administration and Controllers).

The overall program has been discussed with the Regents Committee on Audit, Chancellors, Executive Vice Chancellors, Vice Chancellors of Administration and Campus Controllers. The Campus Controllers and UCOP Financial Management were given the responsibility for implementing this program.

Accordingly, the following disclosures must be made in writing by those with fiscal responsibility to the Campus Controller and the Vice Chancellor of Administration as part of the annual fiscal close certification process:

- I am responsible for the establishment and monitoring of the system of the policies, processes and practices of internal control in my department.
- I am responsible for the application of University policies and procedures to ensure the efficient and effective use of resources and to prevent and detect fraud in the areas in which I am involved.
- There are no material transactions or agreements, including the accrual of liabilities that have not been properly recorded in the University’s accounting records. In general, items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable

person relying on the information would have been changed or influenced by the omission or misstatement.

- Communications from regulatory agencies, contract and grant agencies, or other entities concerning noncompliance with laws, regulations, applicable guidelines, directives or with an appropriate standard of care have been disclosed in writing to the Associate Vice President – Systemwide Controller.
- All known allegations of fraud or suspected fraud have been disclosed to the appropriate University official or workgroup.
- I understand and agree that I am accountable for ensuring that the areas in which I am involved manage its funds in compliance with laws, regulations, provisions of contract and grant agreements, and donor restrictions that apply to these funds.

## ***B. Financial Accountability***

### ***1. Delegation of Responsibility***

#### ***a) Financial Stewardship***

University management formally delegates signature responsibility to provide a method to control who may approve financial transactions and to meet the University's financial stewardship responsibilities. University employees who have been delegated signature authority should understand the University's financial stewardship philosophy, applicable policies, regulations, rules and laws. University employees delegated signature authority are responsible for the application of University policy and procedures to ensure the efficient and effective use of resources and to prevent and detect fraud in the areas in which they are involved in. The delegation should be reviewed for appropriateness on a regular basis or as necessary.

Stewardship responsibilities encompass total oversight of the resources assigned to each employee as well as those resources available for use. Financial stewardship responsibilities include:

- Spending money that reflect the action of a prudent person and monitoring expenditures in a way that the members of the general public would expect.
- Purchasing goods and services in the most efficient and cost effective manner possible and in accordance with University purchasing policies.

## Principles of Accountability with Respect to Financial Transactions

- Helping others in their financial stewardship efforts.
- Being accountable for your actions, equipment, funding and time.
- Encouraging others to be good stewards of University resources.

### b) Accountability Structure

Each department dean or manager and DA shall be responsible for developing an accountability structure that adheres to the following principles:

- Reporting lines and communication channels must be clear to enable accountability.
- Accountability cannot be delegated.
- A person cannot delegate greater responsibility than he or she possesses.
- Tasks shall only be delegated to people who are qualified to perform them. A qualified person must:
  - be actively involved in the tasks being performed;
  - have the appropriate knowledge and technical skills to perform those tasks, including knowledge of relevant regulations and policies;
  - understand the key control role the person plays in performing the task; and
  - have the authority to carry out the tasks.
- A person delegating tasks is responsible for ensuring that those tasks are being properly performed.
- The DA must designate individuals with responsibility for updating the location's administrative computer security system to grant department employees access to prepare, review, or inquire against on-line systems.

## 2. Preparing and Reviewing Financial Transactions

Two people are required to process each financial transaction. The first person (Preparer) enters information about the transaction, and the second person (Reviewer) reviews each financial transaction to ensure that the Preparer has properly fulfilled his or her function and that the

transaction is approved for reporting in the financial system of record. Both a Preparer and Reviewer must be involved in each financial transaction, and the Preparer and Reviewer cannot be the same individual.

There should be no material transactions or agreements, including the accrual of liabilities that have not been properly recorded in the University's accounting records.

Reviews should be properly documented. Please see Section IV for the responsibilities of both the Preparer and the Reviewer.

### **C. *Financial Management***

Each operating department requires financial resources in order to perform its role in the University's mission of research, teaching and public service.

#### **1. Safeguarding University Assets**

University assets must be safeguarded from loss or unauthorized use. Adequate safeguards include the following:

- All cash, checks or cash equivalents, including credit/debit card transactions, collected at major and sub cashiering stations, department/units and all petty cash funds, are processed and managed in compliance with the requirements of [BUS-49](#), *Policy for Cash and Cash Equivalents Received*.
- All department assets are properly described and accounted for in the Financial System. Actual physical assets, as recorded in the equipment inventory system, are compared to assets recorded in the Financial System at least once per year. Discrepancies are resolved in a timely manner, and adjustments to asset records must be documented and approved. (Refer to [BUS-29](#), *Management and Control of University Equipment*).
- Access to any forms or on-line systems that can be used to alter financial balances must be restricted to qualified and competent employees who require such access to perform their University duties.

#### **2. Safeguarding Information**

Protect personally identifiable information or confidential information obtained in the course of handling financial transactions and data must be safeguarded from unauthorized access and use. Please see [IS-3](#), *Electronic Information Security*, for guidelines on safeguarding personal or confidential information.

## **VI. RELATED INFORMATION**

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### Accounting Manual Chapters

- P-196-13, Payroll: Attendance, Time Reporting, and Leave Accrual Records
- P-196-16.5, Payroll: Official Pay Dates
- [P-196-21](#), Damage Payments for Services Performed Before Loyalty Oath Is Signed
- P-196-30, Payroll: OASDI and Medicare Contributions
- P-196-78, Payroll: UCRS Accounting Procedures
- T-182-73, Taxes: Sales and Use Tax

### Business and Finance Bulletins

- [BUS-29](#), Management and Control of University Equipment
- [BUS-43](#), Materiel Management
- [BUS-49](#), Policy for Cash and Cash Equivalents Received
- [G-38](#), Tax Exemption and Refund Claims Filing for Property Leased by the University
- [IS-3](#), Electronic Information Security
- [IS-10](#), Systems Development Standards
- [RMP-1](#), University Records Management Program
- [RMP-2](#), Records Retention and Disposition: Principles, Processes, and Guidelines

[University of California Sales & Use Tax Manual](#)

[University of California Whistleblower Policy](#)

[2 CFR Part 200](#): Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

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## **VII. FREQUENTLY ASKED QUESTIONS**

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Not applicable.

## **VIII. REVISION HISTORY**

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XX/XX/2017: Codification of UCOP Financial Policy previously posted on the CFO Division website into a new systemwide Business and Finance Bulletin.