

MANAGEMENT RESPONSIBILITIES:

A Reference Guide

The University of Texas Health Science Center at San Antonio

Office of the Executive
Vice President for Administration
And Business Affairs

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PREFACE

The administration of academic health science centers has grown increasingly complex in the last decade, due in large part to external forces such as the expansion of regulatory requirements in a climate of decreasing resources. As a result, the effective operation of departments, which is essential to The University of Texas Health Science Center at San Antonio's mission of teaching, research, patient care, and service, has become a significantly greater challenge to achieve.

This *Reference Guide* was developed to assist department chairs, directors, and other administrative officers, who are responsible for management of campus departments and units, to understand their roles and responsibilities in campus administration. It defines and clarifies areas of accountability, responsibility, and delegation. The responsibilities listed throughout the *Reference Guide* are not all inclusive, nor do they supplant a written job description. However, the document does identify major responsibilities in the areas of conflict of interest; finance and administration; environmental health and safety; academic affairs; and human resources.

This important reference tool complements the *Handbook of Operating Procedures* which contains University policies essential to the management of the campus and the Regents' *Rules and Regulations* which govern the operation of The University of Texas System.

Feedback for future editions of the *Reference Guide* should be addressed to Mr. R. B. Price, Executive Vice President for Administration and Business Affairs, and Extension 2015, FAX 2047, or e-mail PRICE.

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1. STATEMENT OF RESPONSIBILITY AND ACCOUNTABILITY

Faculty and staff of The University of Texas Health Science Center at San Antonio owe a responsibility to the people of Texas in the performance of their duties. High personal and professional standards are critical in fulfilling this responsibility. Employees will be held accountable for their actions, or their failure to act, and such accountability cannot be delegated to others. Each employee of the Health Science Center agrees to abide by a Code of Ethics which provides reasonable assurance that the employee will not personally benefit or accept favors as a result of his or her University position. The Code of Ethics is found in Section 2.2 of the *Handbook of Operating Procedures*.

2. MANAGEMENT RESPONSIBILITIES

2.1 OVERVIEW

The mission of the Health Science Center includes teaching, research, patient care, and service. In fulfilling this mission, campus managers and administrators must also perform (1) financial and administrative functions and (2) compliance functions.

FUNCTION	DEFINITION	TYPES/EXAMPLES
Operational	Relates to the mission of the University	Teaching Research Patient care Service
Financial and Administrative	Relates to the management of the University's resources	Human Resources Fiscal resources Buildings and equipment
Compliance	Relates to the adherence to laws, regulations, and policy and procedures	State law Gift and grant terms Health regulations Software licensing terms Environmental regulations State Comptroller regulations

The structure and organization of the Health Science Center is established by the President, subject to approval by The University of Texas Board of Regents, the Executive Vice Chancellor for Health Affairs, and, where applicable, the Texas Higher Education Coordinating Board. Reporting to the President are the Deans of the five schools; the Executive Vice President for Administrative and Business Affairs; the Vice President for Academic Services; the Vice President for University Relations; and the Executive Assistant to the President. These ten individuals constitute the Executive Committee of the Health Science Center. Also reporting to the President are the Institutional Review Board; the Internal Audit Office; and the Office of Equal Employment Opportunity/Affirmative Action (EEO/AA).

For the purposes of this *Reference Guide*, the head of each University department, division, center, and Executive Committee office is designated as the *Chief Departmental Officer (CDO)*. This designation includes Division Chiefs, Chairs, Directors, Deans, Vice Presidents, and the President.

With regard to their financial/administrative and their compliance functions, Chief Departmental Officers are charged with implementing established policies and procedures so that the University:

- ▶ is well managed;
- ▶ is in compliance with applicable laws and regulations;
- ▶ is in sound financial condition;
- ▶ is consistent in its administration of policies;
- ▶ is administered fairly and rationally; and
- ▶ reflects appropriately the diversity of the population and the work force.

CDOs may assign certain duties to the Assistant to the Chair (or the organizational equivalent) to assist them in carrying out their administrative/financial and compliance responsibilities. For the purposes of this *Reference Guide*, these individuals are referred to as **Departmental Administrative Officers (DAO)**. A DAO may serve as the chief business and financial officer for his or her department and may be expected to provide financial and other advice and assistance to the CDO in fulfilling management responsibilities.

CDOs are responsible for conducting their departmental business in accordance with the institution's *Handbook of Operating Procedures*. Departments such as the Office of Equal Employment Opportunity/Affirmative Action, Accounting, Purchasing, Internal Audit, Human Resources, Budget and Payroll Services, and Grants Management provide a variety of services to assist all departments. These services include expertise and assistance in interpreting policy and legal requirements, formal and informal training, and compliance monitoring.

2.2 AREAS OF RESPONSIBILITY

Responsibilities consist of activities, goals, functions, and actions for which an individual has to account or to be answerable. A prime area of responsibility is to provide reasonable assurance that the University's mission of teaching, research, patient care, and service is fulfilled. By definition, if an individual is **responsible** for an action, then he or she is also **accountable** for that action. Responsibility and accountability are linked. In terms of delegation, management can delegate some of the duties which support their responsibilities, but cannot delegate the responsibility or accountability.

The President has delegated, through members of the Executive Committee, to Chief Departmental Officers the administrative/financial and compliance responsibilities for operation of their departments.

CHIEF DEPARTMENTAL OFFICERS ARE RESPONSIBLE AND ACCOUNTABLE FOR THE FOLLOWING DEPARTMENTAL ACTIVITIES:

- ▶ Complying with all applicable laws and regulations, University policies and procedures, and with the terms and conditions of gifts, contracts, and grants.
- ▶ Maintaining the sound financial condition of the department.
- ▶ Establishing and maintaining good business practices.
- ▶ Establishing and maintaining an effective system of internal controls including information resources security.
- ▶ Establishing and maintaining an effective system of information management, including records management and the use of technology where appropriate.
- ▶ Establishing appropriate safeguards to protect the equipment and other capital assets of the department.
- ▶ Administering the department consistent with established practices and with the principles of fairness, rationality, and due process.
- ▶ Administering human resources to appropriately reflect the diversity of the work force.

Chief Departmental Officers may assign duties to Departmental Administrative Officers to assist in carrying out (1) administrative and financial responsibilities and (2) compliance responsibilities, as well as (3) mission related responsibilities. Neither CDOs or DAOs are expected or required to have in-depth knowledge of the myriad laws, codes, and policies affecting academic health science centers. Administrative and service departments and areas are responsible for (1) providing expertise and guidance in establishing systems and procedures to carry out the above responsibilities and (2) assisting in problem resolution. CDOs are responsible for conducting their departmental business in accordance with the *Handbook of Operating Procedures*.

Written goals and objectives which define accountability, responsibility, and delegated duties should be established by CDOs for their departments or areas so that (1) there are clear expectations and standards against which performance can be evaluated and (2) employees can receive timely and honest feedback on their performance. Each CDO should develop an operations manual for his or her department. Certain aspects of University life require special consideration when discussing management responsibilities. These include conflict of interest, finance and administration, environmental health and safety, academic affairs, and human resources.

2.3 CONFLICT OF INTEREST

A Chief Departmental Officer may delegate duties for monitoring and preventing conflict of interest, but remains accountable for the implementation. Except as permitted by State law, public employees may not exercise their authority in any way that could benefit them significantly in a private financial

manner. Regents' *Rules and Regulations* further state that employees shall not accept or solicit any gift, favor, or service that might reasonably tend to influence them in the discharge of their official duties. Committing the University to a course of action by contract or otherwise when such action would serve to benefit the individual financially is the essence of conflict of interest. Section 2.16 of the *Handbook of Operating Procedures* contains the University's conflict of interest policy.

2.3.1 Major Duties That May Be Delegated

1. Establishing departmental policies and procedures which ensure that:
 - a. Health Science Center policies regarding conflict of interest are followed.
 - b. Faculty and staff are informed of disclosure and disqualification requirements.

2.3.2 Areas of Particular Concern

1. A principal investigator must disclose whether or not he or she has direct or indirect financial interest in the sponsor of research funded in whole or in part through either a gift, contract, or grant from a nongovernmental entity prior to making any commitment to accept such funding.
2. Conflict of interest should be avoided in all instances of outside employment. Conflict of interest in an academic institution is outside activity which intrudes upon the academic functions of teaching, research, patient care, and/or service to the institution.
3. Faculty and staff should be encouraged to discuss any potential conflict of interest situations with the department and/or other campus officials, such as Deans or the Executive Director of Legal Affairs and Technology Licensing.

2.4 FINANCE AND ADMINISTRATION

A Chief Departmental Officer may delegate duties supporting financial responsibilities to the Departmental Administrative Officer, but cannot delegate accountability. A CDO who delegates financial duties to a DAO needs to establish formal and informal procedures to remain informed of the financial actions of the department.

2.4.1 Major Duties That May Be Delegated

1. Establishing a financial and budget plan based on programmatic priorities which optimizes the effective utilization of financial resources.
2. Implementing monitoring and reporting procedures to measure progress in achieving the financial plan and to accurately track the applications of financial resources and current financial position against the established budget.
3. Operating the department in compliance with all applicable laws and regulations, with all University policies and procedures, and with terms and conditions of gifts, grants, and contracts.

4. Establishing and maintaining a system of internal controls to provide assurance that resources are properly used and safeguarded against waste, loss, and misuse. This includes methods and procedures for separation of duties; proper approvals; security of assets and records including information resources; and review and reconciliation of statements of accounts. Internal control is discussed in Appendix A.
5. Establishing departmental policies and procedures to ensure that:
 - a. All costs charged to each account specifically benefit the project for which the funds were established.
 - b. There is no improper shifting of restricted funds to other funds (i.e., grant funds being shifted to a departmental reserve fund).
6. Identifying unauthorized transactions and providing immediate feedback to management if a loss of University assets or any significant irregularity has occurred.
7. Notifying Internal Audit when any external agency proposes to audit a specific contract or grant.

2.4.2 Areas of Particular Concern

1. Employees cannot approve payroll or other disbursements to themselves.
2. Entertainment expense reimbursements and payments must follow special limits and approvals as outlined in the *Handbook of Operating Procedures*.
3. When an employee signs any document as the approving authority, he or she must sign his or her own name or, in the case of electronic approvals, use his or her own password/account.
4. Cash and checks received for the University must be deposited in a timely manner and in accordance with University policy.
5. Financial systems developed by a department must demonstrate that income and expense transactions, as well as fund balances, reconcile to the official institutional accounting records.
6. Employees cannot accept cash, non-cash gifts, or other benefits from vendors or other organizations that do business with the University, except as provided within State ethics laws.
7. All payments to or for the benefit of University employees must be according to personnel policies and pay plans.
8. The funds of the University cannot be used for personal gain. This includes (1) the purchase of products for personal use and (2) the purchase of products or services from oneself or a relative, or from other employees of the institution without prior approval of the Board of Regents.
9. Paying an individual as an independent contractor or a consultant when he or she should be paid as an employee is in violation of Internal Revenue Services regulations and renders the University liable to pay required taxes and/or penalties.

10. Full records of equipment must be kept in the department. Equipment that is used in individuals' homes or other off-campus locations remains the property of the University and must be returned when no longer used for University business; property removal permits must be current at all times.
11. The University cannot make charitable or political contributions.
12. By law, the Employee's Claim for Workers Compensation Benefits form must be filed within five business days of notification that an employee has sustained a work-related illness or injury.
13. The Office of the Executive Vice President for Administration and Business Affairs is to review any **Certificates of Insurance** submitted to the University or decisions involving various risks and benefits relating to potential accidental loss or liability.
14. Property claims must be submitted to the Office of the Executive Vice President for Administration and Business Affairs as soon as they are received.
15. All software running on departmental computers must fully comply with the applicable terms of license agreements; passwords must belong to only one individual and must not be shared; appropriate documentation must be available; appropriate backups must be made on a routine basis; and equipment must be secured at all times and be accessible only to authorized departmental users.
16. No single person should have the authority to prepare transactions, to authorize transactions, and to reconcile financial records. These responsibilities should be separated among responsible staff.
17. Any funds deposited in accounts with the institution become the property of the University and can be expended only in accordance with the governing rules and regulations.
18. Long distance telephone service must be used for official business only.

2.5 ENVIRONMENTAL HEALTH AND SAFETY

A Chief Departmental Officer is responsible for ensuring that departmental staff and students have a safe and healthy work environment. Major duties that may be delegated are identified below. To carry out the departmental health and safety responsibilities, a CDO may designate a safety officer to whom these duties are delegated.

2.5.1 Major Duties That may Be Delegated

1. Acting as liaison with the Institutional Safety Office and assisting in developing and maintaining all facets of the safety program.
2. Maintaining Emergency Action Plans which address procedures to be followed by personnel in case of fire, earthquake, severe weather, chemical spill, or other emergencies. The plans should include evacuation routes and designation of key emergency task personnel. Plans should be integrated in departmental training.

3. Establishing a program to educate and train all principal investigators and supervisors regarding safety (including required display of safety posters), identifying and eliminating hazardous conditions, and record keeping.
4. Record keeping on employee injuries, incident reports, and grievances involving safety matters.
5. Establishing a written Hazard Communication Program and performing an annual hazardous material inventory and inspection; acquiring material safety data sheets with the assistance of the Office of Institutional Safety; labeling chemicals properly; and providing Hazard Communication training for all employees.
6. Documenting employee safety training (from any source including formal presentations) showing participant's name, signature, date of presentation, topic discussed, and training materials used. Submitting documentation to the Office of Institutional Safety for entry into their training database.
7. Maintaining a collection of appropriate Material Safety Data Sheets (MSDS) for the department in the safety officer's office and at off-campus locations.
8. Establishing a procedure to ensure that all hazardous waste is properly prepared for disposal, labeled, and picked up by Institutional Safety.
9. Reporting any serious accident to Institutional Safety as soon as possible after its occurrence.
10. Handling controlled substances in accordance with the *Texas Drug Laws*.

2.6 ACADEMIC AFFAIRS

A Chief Departmental Officer may delegate appropriate administrative duties in all areas listed below, but cannot delegate accountability for the academic or administrative leadership of the department. Staff may be responsible for implementing the CDO's decisions and for reviewing departmental compliance with University policies and procedures, but cannot be responsible for academic or other substantive decisions for which the CDO is accountable. The CDO cannot delegate his or her oversight responsibility for the departmental review process, the conducting of annual reviews of all academic appointees, and faculty consultation on academic personnel actions and programmatic issues.

2.6.1 Major Duties That May Be Delegated

Academic Services and Academic Personnel

1. Carrying out administrative details concerning compliance with University policies and procedures pertaining to academic layoffs, academic grievances, misconduct, confidentiality, departmental peer review process, and related ethical and legal issues.
2. Carrying out administrative details concerning the negotiation and advising of academic appointees about the terms and conditions of employment, including benefits.
3. Overseeing faculty compliance with terms of Pay Plans, where applicable.

4. Overseeing allocation of support services, including space.

Research Affairs

1. Reviewing proposals submitted by departmental faculty members to ensure that:
 - a. The principal investigator or the co-principal investigator is eligible.
 - b. The proposed project is consistent with the educational and professional objectives of the department.
 - c. The time commitments made by the faculty are appropriate.
 - d. Campus space will be available for the proposed project and, if not, how the project will be accomplished.
 - e. Cost sharing and/or other fund commitments set forth in the proposal can be met.
 - f. Equipment screening procedures have been followed where appropriate.
 - g. Principal investigators adhere to University guidelines regarding the review, approval, and timely submission of proposals as well as the conduct of the research.
2. Reviewing matters such as space allocation and employee health and safety programs as they relate to research issues involving human subjects, animal welfare, biohazards, and radiation safety.
3. Establishing and maintaining departmental review committees as appropriate (e.g., Peer Review Committee on Animal Research).
4. Approving all radiation safety and radioactive drug research applications.

Intellectual Property

1. Ensuring that the appropriate policies and guidelines are followed on all license agreements with private entities; negotiating, reviewing, and approving sponsored research projects; and managing and marketing of intellectual property.

2.6.2 Areas of Particular Concern

Academic Services and Academic Personnel

1. In overseeing the University's complex appointment and academic review process, it is of critical importance that CDOs and DAOs follow University procedures with particular care. It is suggested that the Dean's Office, the Office of Equal Employment Opportunity/Affirmative Action, and/or Office of the President be consulted as early as possible when questions or problems arise.
2. In negotiating faculty compensation, problems frequently arise in the administration of the University's compensation plan. Questions or problems should be referred to the Office of the Dean.
3. Serious issues or circumstances may lead to a formal complaint, grievance, or legal action. Examples of such issues or circumstances include discrimination, misconduct in science, sexual

harassment, dismissal for cause, layoffs, misuse/mismanagement of resources, and any other violation(s) of University personnel policies.

It is suggested that the department chair immediately involve the Office of the Dean the Office of Legal Affairs and Technology Licensing, and/or the Office of the President whenever any of the above issues occur or seem likely to occur.

Research Affairs

The Office of the Dean and the Office of Grants Management are available for consultation regarding accuracy, completeness, and timeliness of research grant and contract applications.

Intellectual Property

1. It is important that anyone using University research facilities, whether or not on a salaried appointment, abide by the terms of the UT System intellectual property policy statements and guidelines.
2. Consulting agreements between a faculty member and an outside organization may conflict with the faculty's University responsibilities under current policies (i.e., obligations to disclose inventions).

2.7 HUMAN RESOURCES

Because a Chief Departmental Officer is the chief administrator of the department, he or she is responsible for the overall management of the department. Within the areas of human resources, the CDO must retain responsibility for:

1. Fostering a departmental environment that respects important legal and ethical guidelines, including equal employment/affirmative action and compliance with personnel policies; and
2. Supporting individuals with specific, delegated duties by clearly delineating roles in the department and appropriately responding to compliance issues that are brought to the CDO's attention.

2.7.1 Major Duties That may Be Delegated

The CDO may, and often will, assign specific duties to the DAO or other appropriate departmental employees. In assigning duties to employees, it is essential that the CDO ensures that the employee clearly understands the scope of the duties, will abide by the policies and procedures governing the assignment, and understands the administrative structure that provides advice and has jurisdiction in the assigned area. While the following list is not to be considered all-inclusive, it represents the more significant human resources duties which may be delegated by the CDO.

1. Implementing the institution's equal employment/affirmative action policies including rigorous pursuit of specific hiring goals for underutilized groups.

2. Assigning responsibilities clearly and effectively by maintaining up-to-date job descriptions, signed by the supervisor and employee, and classified by the Office of Human Resources.
3. Coordinating the resolution of human resource issues and potential problems within the department prior to making decisions, especially in the areas of affirmative action and equal employment, hiring or promotion, discipline, classification and pay, employee rehabilitation, and workers' compensation.
4. Maintaining appropriate documentation to support and substantiate personnel actions taken in the department, particularly in the areas of applicant selection and rejection, performance evaluation, classification and pay, salary increases, job assignments, and hours worked and paid.
5. Making readily available current information and forms related to employee benefits.

2.7.2 Areas of Particular Concern

While the following examples are not all-inclusive, they do serve to illustrate areas of particular concern.

1. Immediately involve the appropriate office (Office of Equal Employment Opportunity/Affirmative Action, Office of Human Resources, etc.) when any complaint, suit, or grievance is filed by an applicant or employee.
2. The classification and compensation levels of a classified or Administrative and Professional position can be established only by Human Resources.
3. Employee hours worked and paid must be accurately documented and reported through the payroll system and must comply with pay policies governing the classification.
4. Consultation must occur with the Office of Human Resources before any of the following actions are taken: dual employment; transfer/promotion during probation; employment of near relatives; or any discipline or separation of an employee.
5. There should be adequate separation of duties in dealing with employee transactions such that no employee can change his or her salary, job title, percentage of time, or any other terms of employment without review and approval of another departmental administrative employee.

APPENDIX A: CONTROLLING RISKS

A1. BALANCING RISKS AND CONTROLS

Internal control is a process designed to provide reasonable assurance of achieving objectives in these categories:

- ▶ effectiveness and efficiency of operations;
- ▶ reliability of financial reporting; and
- ▶ compliance with applicable laws, regulations, and defined policies and procedures.

Risk is the possibility that the University will not achieve these objectives.

Chief Departmental Officers must effectively balance risks and controls thus attaining that “reasonable assurance”. As it relates to financial/administrative and compliance goals, being out of balance creates problems through either excessive risks or excessive controls.

Excessive risks can lead to:

- ▶ loss of assets, donors, or grants;
- ▶ poor business decisions;
- ▶ noncompliance;
- ▶ increased regulations; or
- ▶ public scandals.

Excessive controls can lead to:

- ▶ increased bureaucracy;
- ▶ reduced productivity;
- ▶ increased complexity;
- ▶ increased cycle time; or
- ▶ increased nonvalue activities.

Balancing risks and controls makes good business sense. Internal controls should be proactive, value-added, and cost-effective. In some cases, the primary responsibility for financial and compliance controls is perceived by Chief Departmental Officers and/or Departmental Administrative Officers as belonging to administrative and service departments such as the Office of Accounting or to internal or external auditors. In the University environment, however, CDOs are responsible for the appropriate use and control of the funds and other resources entrusted to them.

CDOs should be reviewing and monitoring their operations on a day-to-day basis. They know their operations better than anyone else and are in a position to best assess and cost-effectively manage all their risks, including financial and compliance risks. The role of auditors in the University environment is to provide advice and expertise. Auditors also provide an independent and objective review of operations and a “check and balance” to the risk and control process.

A2. RISK ASSESSMENT

Risk assessment is (1) the identification of significant, realizable threats to the possibility that the University will not:

- ▶ achieve its mission;
- ▶ operate efficiently and effectively;
- ▶ protect itself from loss;
- ▶ provide reliable financial data through reporting; and/or
- ▶ comply with applicable laws, regulations, and defined policies and procedures

And (2) the specification of protective measures to minimize the threats and detect the occurrence of threat events.

A2.1 Inherent Risks in a University Environment

A university environment has some unique, inherent risks that make the job of managing financial/administrative and compliance risks more challenging. Some of the inherent risks faced by universities include:

- ▶ decentralized accounting and reporting systems;
- ▶ tight budgets and the resulting lack of various resources such as personnel and equipment
- ▶ possibility of some CDOs having a limited financial background; and
- ▶ intense public and journalistic scrutiny.

A2.2 Reasonable Assurance

The objective for the University in risk assessment is to attain a “reasonable” level of assurance that its financial/administrative and compliance goals will be achieved. Trying to attain an “absolute” level of assurance is not possible because:

- ▶ It is **cost prohibitive**. (The objective is to find an optimal level of controls for an acceptable level of risk.)
- ▶ CDOs and/or DAOs can **bypass** or **override** internal controls.
- ▶ Employees can **collude**.
- ▶ **Human error** may occur.

NOTE: With a decentralized accounting system such as is in place at the Health Science Center, the Office of Accounting’s controls cannot solely provide reasonable assurance that departments and schools are adequately controlled. Certain of Accounting’s controls such as authorization and approval verification, if followed, will reduce the risk of loss. However, these controls are easily circumvented or ignored at the departmental level when adequate emphasis is not placed on internal controls and/or the controls are not being monitored to see that they are functioning properly.

A2.3 Identifying Risks

To properly manage their area, CDOs need to determine the level of financial/administrative and compliance risks they are willing to assume. Risk assessment is one of a CDO's responsibilities and enables him or her to act proactively in reducing unwanted surprises. Failure to consciously manage these risks can result in a lack of confidence that financial/administrative and compliance goals will be achieved. To begin identifying risks, Chief Departmental Officers should ask themselves and their staff, as appropriate, the following questions:

- ▶ what can go wrong?
- ▶ where are we most vulnerable?
- ▶ where is our greatest exposure?
- ▶ what types of transactions in our area provide the most risk?
- ▶ do we have "liquid" assets or assets which have alternative uses?
- ▶ how can someone bypass internal controls?
- ▶ what potential risk areas could cause adverse publicity?

CDOs should benchmark with other CDOs in similar situations, sharing knowledge and experiences regarding risks in their areas. CDOs should also analyze their financial data in order to identify where there is a high volume of activity or large dollar amounts. After risks are identified, CDOs should (1) evaluate the potential impact should the risk occur and (2) identify the probability of the risk actually occurring. Appendix B contains a worksheet for CDOs to use in this process.

A2.4 Higher Risk Transaction Types

Types of transactions which **may** pose higher risks to departments and which deserve conscious risk review include:

- ▶ petty cash;
- ▶ chemical inventory;
- ▶ turnover in key personnel;
- ▶ one person "financial" staff;
- ▶ medical charge capture;
- ▶ assets with alternative uses;
- ▶ cash receipts (continuing education programs, gifts, endowments, special events, bookstore, etc.);
- ▶ consultant payments or other payments for services;
- ▶ travel expenditures;
- ▶ payments to non-vendors (i.e., experimental patient payments);
- ▶ equipment delivered directly to department;
- ▶ purchase exemptions (sole source);
- ▶ payroll (rates, changes, terminations);
- ▶ equipment on location;
- ▶ software licensing issues;
- ▶ intellectual property;
- ▶ confidential information; and
- ▶ grants (meeting terms, overspending).

A2.5 Quantitative and Qualitative Costs

In evaluating the potential impact of risk, both quantitative and qualitative costs need to be addressed by Chief Departmental Officers. Quantitative costs include the cost of property, equipment, or inventory; cash dollar loss; damage and repair costs; costs of defending a lawsuit; etc. Qualitative costs can have wide ranging implications to the University. These costs may include:

- ▶ loss of public trust;
- ▶ loss of future grants, gifts, and donations;
- ▶ injury to the University's reputation;
- ▶ increased legislation;
- ▶ violation of laws;
- ▶ default on a project;
- ▶ bad publicity; and
- ▶ decreased enrollment.

A2.6 Changes

Universities are operating in a constantly changing environment that requires continuous review and monitoring. In such an environment, financial/administrative and compliance goals are more challenging to achieve and demand attention from Chief Departmental Officers. As external and internal forces occur, the University's risks may significantly change. Some external factors affecting risk include: increased regulatory requirements; new technology; political changes; and intense public and journalistic scrutiny. Internal factors affecting risk include management turnover; decentralization; limited resources; inherited staff; and University politics.

As the above risk factors occur, they may dramatically affect a department's risk. Therefore, prudent management requires that risk factors be reviewed on a periodic basis and should be a part of management's monitoring process.

A3. INTERNAL CONTROL TOOLS

After identifying and prioritizing the financial/administrative and compliance risks, the next step of the process for a Chief Departmental Officer is to identify the appropriate controls to manage risks. CDOs need to focus on their high risk, high priority areas in developing an internal control system.

Internal control may be thought of as a map that helps CDOs get to their destination. Obviously, just because CDOs have a map, there is no guarantee that they will get there, but it does provide "reasonable assurance". Internal controls help keep the University on course to fulfill its mission, achieve goals, carry out directives, reduce surprises, increase reliability of information, promote effectiveness and efficiency, safeguard assets, and comply with rules and regulations.

In the same way that Chief Departmental Officers are primarily responsible for identifying the financial/administrative and compliance risks for their operations, they also have line responsibility for designing, implementing, and monitoring their internal control system. The Office of Internal Audit is available to provide advice and expertise. CDOs are encouraged to consult with this office when evaluating internal controls, especially with regard to areas deemed to be high risk.

Trust is a key component in Chief Departmental Officers' interactions in the academic and the health care environments. Employing honest, trustworthy personnel is critical; however, trusting employees is not a replacement for an internal control system. An internal control system does not rely solely on trust, but is an "objective" set of procedures to help ensure that goals are met. Any override of controls provides an "opportunity" for someone to take advantage of the system for which Chief Departmental Officers are responsible and accountable.

There are five key internal control tools for Chief Departmental Officers to use:

- ▶ creation of a control-conscious environment;
- ▶ separation of duties;
- ▶ authorization/approval;
- ▶ control over physical and intellectual assets and records; and
- ▶ monitoring.

Controls can either be preventive or detective. The intent of the two control types is different. Preventive controls attempt to deter or prevent undesirable acts from occurring. They are proactive controls that help prevent a loss. Examples of preventive controls are separation of duties, proper authorization, adequate documentation, and physical control over assets.

Detective controls, on the other hand, attempt to detect undesirable acts. They provide evidence that a loss has occurred, but do not prevent a loss from occurring. Examples of detective controls are reviews, analyses, variance analyses, reconciliations, physical inventories, and audits.

Both types of controls are essential to an effective internal system. From a quality standpoint, preventive controls are essential because they are proactive and emphasize quality. However, detective controls play a critical role providing evidence that the preventive controls are functioning and preventing losses.

A3.1 Creation of a Control-Conscious Environment

A control-conscious environment is one that supports ethical values and business practices. Chief Departmental Officers are responsible for "setting the tone" for their organization. CDOs should foster a control environment which encourages:

- ▶ the highest levels of integrity and personal and professional standards;
- ▶ a leadership philosophy and operating style which promote internal control throughout the organization; and
- ▶ an assignment of duties which ensures the highest possible level of employee accountability.

The following action steps taken by Chief Departmental Officers will help encourage ethical behavior:

- ▶ Communicate the Statement of Responsibility and Accountability (Section 1 of this document) and the fraud policy (Section 2.17 of the *Handbook of Operating Procedures*) to employees.
- ▶ Communicate to employees that fraud (embezzlements, stealing, etc.) and conflicts of interest will not be tolerated.
- ▶ Communicate that University policies and procedures are important and will be followed.
- ▶ Make employees fully aware of their duties (including internal controls).
- ▶ Document key department policies and procedures.
- ▶ Send employees to ethics and internal control training.
- ▶ Evaluate personnel based on performance related to internal controls.
- ▶ Take disciplinary or other actions for non-performance.
- ▶ Monitor the internal control system on an on-going basis.

A3.2 Separation of Duties

Separation of duties is an internal control tool in which functions are divided so that no one person has control over all parts of a transaction. Activities to separate are: initiating; authorizing (approving); recording; reconciling; and physically controlling (custody). The following examples describe duties which should not be performed by the same person:

- ▶ Initiating and approving a purchase and receiving goods directly.
- ▶ Collecting money and recording the payment on the books.
- ▶ Authorizing payments and reconciling departmental accounts.

Two key questions are:

- ▶ Does one person perform all parts of the transaction from initiating to reconciling?
- ▶ Does someone have access to “information systems” that create a separation of duties problem?

A simple way of looking at separation of duties is to have at least two “sets of eyes” look at a transaction. Trust should not prevent a Chief Departmental Officer from separating duties. Often it is the longtime, trusted employee who commits fraud because he or she knows the system and how to circumvent it. In small departments it is often difficult to separate duties. To compensate for this situation, some of the following actions could be employed:

- ▶ Place greater emphasis on monitoring.
- ▶ Use a temporary employee to do one of the key functions such as reconciling; this could entail one day a month, which is certainly worth the price if it prevents loss.
- ▶ Require employees to take vacation.
- ▶ Use the Dean’s or Vice President’s Office as a level of separation if feasible.
- ▶ Use the information system to analyze activities.
- ▶ Make sure cash transactions are recorded as soon as possible.
- ▶ Make sure that checks are restrictively endorsed upon receipt.

A3.3 Authorization/Approval

Authorization is an internal control tool in which transactions are executed and access to assets is permitted only in accordance with the Chief Departmental Officer's directives. Signature authority or delegation of that authority should be linked to a "need to have" basis. Signature authority is the equivalent of giving an individual signed blank checks. Consequently, CDOs should judiciously limit authorization authority.

"Rubber stamping" documents circumvents this control. Chief Departmental Officers should question what they sign, at least on a sample basis. Where appropriate, supporting documentation should be attached to the signature form or at least made available. Questioning various transactions and requesting additional information enhances a control conscious environment. Written procedures outlining the delegation guidelines should be developed by all CDOs.

Access to, and use of, computing resources must be restricted to appropriately authorized users. All means of access to automated information resources, such as passwords, are confidential and proprietary to the University. An employee is required to maintain the privacy of his or her password(s) and is accountable for the unauthorized use. Sharing user identification codes or revealing passwords is prohibited.

A3.4 Control over Physical and Intellectual Assets and Records

Control over physical and intellectual assets and records is an internal control tool that establishes control procedures to prevent loss of physical and intellectual assets and records and assures that assets and records are physically secured. Chief Departmental Officers are personally responsible for the assets in their organization. Assets have a way of "walking off" if physical controls do not exist. Equipment moved from one location to another needs to be monitored. Separation of duties should be maintained between the person who has custody of the assets or records and the person who takes the physical inventory.

Asset control activities include:

- ▶ Periodic asset counts;
- ▶ Use of perpetual records;
- ▶ Periodic comparisons of the accounting records to the perpetual records;
- ▶ Investigation of discrepancies;
- ▶ Periodic summaries of inventory usage;
- ▶ Completion of property removal permits for equipment removed from campus;
- ▶ Physical safeguards against theft and fire; and
- ▶ Proper authorizations of purchases.

A3.5 Monitoring

Monitoring ensures that the internal control system is operating as expected. Existence of a control does not assure it is functioning properly. Effective controls may be designed into the system, but are not effective unless they are functioning properly. Chief Departmental Officers should perform ongoing monitoring activities to determine whether the control system can be relied on to provide reasonable assurance that financial/administrative and compliance goals can be accomplished and to

address new risks when changes occur. Monitoring is a detective control that aids in identifying losses, errors, or irregularities.

Chief Departmental Officers are, of course, extremely busy with the many duties and responsibilities related to the teaching, research, patient care, and service mission of the University. However, their role in the internal control system is critical to its effectiveness. Chief Departmental Officers, like auditors, do not have to look at every single piece of information to determine that the controls are functioning; CDOs should focus their monitoring activities in high risk areas. The use of spot checks of transactions or basic sampling techniques can provide a reasonable level of confidence that the controls are functioning.

Financial reports are a key monitoring tool. Information that Chief Departmental Officers should obtain from their reporting system to use to monitor controls includes:

- ▶ comparison of actual to budget;
- ▶ comparison of the current month to the previous month;
- ▶ comparison of the current month to the previous year’s month;
- ▶ year-to-date totals;
- ▶ special account analysis for high risk accounts; and
- ▶ reconciliation of departmental budgets to a monthly account statement.

The following table identifies various monitoring activities for four different types of transactions.

TRANSACTION TYPE	MONITORING ACTIVITIES
Payroll	Review and approve initial pay and any changes Review procedures for additions/deletions Review terminations to ensure they are taken off system Review for nonstandard hours Monitor vacation and sick leave
Travel	Review supporting documents Personally approve Analyze by employee and related expenses
Consultants	Request supporting documentation Make a “call” if support is not available
Endowments/Gifts	Verify that they are recorded immediately and tied to University Relations records Verify known “gift” to records to ensure it was recorded

Specific monitoring activities include:

- ▶ Review financial reports for propriety and trends.
- ▶ Evaluate trends.
- ▶ Review reconciliations, ensuring that reconciling items are investigated.
- ▶ Verify the propriety of supporting documentation.
- ▶ Have Internal Audit review high risk areas.
- ▶ Have periodic asset counts performed.
- ▶ Make surprise cash counts.
- ▶ Follow up on complaints, rumors, and allegations.
- ▶ Send out periodic confirmation of accounts receivable.

A4. FRAUD

Chief Departmental Officers are responsible and accountable for establishing and maintaining a system of internal controls that provides reasonable assurance that improprieties are prevented and detected. Each CDO should be familiar with the types of improprieties that might occur in his or her area and be alert for any indication that such a defalcation, misappropriation, or other fiscal irregularity has occurred.

Motive, opportunity, and/or justification set the stage for fraud:

MOTIVE	OPPORTUNITY	JUSTIFICATION
--Greed	--Poor or weak internal control system	--“It was so easy.”
--Financial crises	--Lack of monitoring the controls	--“They don’t pay me enough.”
--Gambling/drinking/drugs	--High management turnover	--“My child is sick.”
--Family Problems		--True crises, divorce, etc.
--Living beyond means		--“My boss circumvents the rules.”
--Affairs		--“I’ll pay it back.”
--Mid-life crises		
--Revenge		
--Unappreciated		
--Workaholic		

“Red flags” to watch out for include:

- ▶ employee won’t take a vacation;
- ▶ unexplained financial variances;
- ▶ complaints;
- ▶ no reconciliation to University Accounting records;
- ▶ even amounts on checks or documents;
- ▶ missing reports or documents;
- ▶ failure to investigate reconciling items;
- ▶ one employee “does it all”;
- ▶ duplicate payments or documentation is not original; and
- ▶ using exemptions to use particular vendor repeatedly.