

ATTACHMENT A**Guidelines for Application of Internal Control Principles**

The following are control activities, as described in section III.B.3. of Policy 360, for applying the internal control principles to the following departmental operations:

Accounting Records and Reports	Cash Receipts
Payroll	Petty Cash and Change Funds
Purchasing, Receiving and Disbursements	Billing and Accounts Receivable
Inventories (Equipment and Supplies)	

Accounting Records and Reports

The University financial system, which includes the University general ledger, subsidiary ledgers, and other management reports, provides most of the official accounting and financial records of the University. Many departments maintain supplemental records or produce management reports which often duplicate information contained on financial system reports.

To ensure the accuracy and integrity of departmental records and reports and to avoid making departmental decisions based on inaccurate or incomplete information, departmental personnel are expected to reconcile departmental records and source documents on a monthly basis with the University financial system ledger and other financial system reports.

After reconciling, any required adjustments and/or corrections must be made promptly. Such adjustments are documented by the employee assigned this responsibility.

Payroll**1. Separation of Duties**

A reasonable separation of duties should be established after considering the associated costs, benefits, and available resources. Under optimal conditions, no employee should have complete control over more than one of the following duties:

- a. Approving payroll transactions;
- b. Distributing payroll checks to employees;
- c. Reviewing payroll expense reports.

2. Authorization and Approval

- a. Personnel and payroll timesheets are approved only by employees formally designated with approval authority.
- b. Payroll transactions are entered by designated preparers. Preparer access is restricted via privileges specified in the Distributed Administrative Computing Security System (DACSS). After preparers enter the transactions, notices are then automatically emailed to reviewers via the Application System Authorization Process (ASAP). Preparers must understand all relevant regulatory requirements and UCLA policies and procedures as well as complete mandatory Personnel/Payroll training classes. Reviewers must review all transactions within two working days of receipt and resolve all questions that arise and ensure transactions are reversed until the questions are resolved.
- c. Approval authority is controlled through the Chief Administrative Officer (CAO) of each unit who is responsible for identifying individuals who will review and approve payroll changes via DACSS. The Departmental Security Administrator (DSA) is responsible for

the input into DACSS as directed by the CAO. Cancellation of privileges shall be promptly entered by the DSA when employees terminate or responsibilities change.

- d. Departmental job and attendance records are approved each month by the staff employee's supervisor and maintained on a formal and current basis. The original approved records are not returned to the employee for further handling after supervisory approval.

3. Custodial and Security Arrangements

- a. Payroll and related personnel records should be filed in a secure location with access limited to only authorized personnel.
- b. Payroll checks awaiting distribution to employees are kept in locked storage, accessible only to a check custodian (or alternate) formally assigned custodial responsibility.
- c. Check custodians require the presentation of proper identification before releasing checks to employees not known to them.

When a payroll check is released to someone other than the payee, check custodians (1) require an authorization signed by the payee to release the check, (2) require proper identification of the person receiving the check, and (3) obtain a signed receipt which will be retained by the check custodian.

- d. Payroll checks that remain undeliverable after 15 days are returned to Business & Finance Solutions, General Accounting, with an explanation of the delivery problem.

4. Review and Reconciliation

- a. Employees who possess overall knowledge of departmental accounts are assigned to review monthly payroll expense reports and the quarterly Personnel Activity Reports (PAR) to ensure the validity and accuracy of payroll charges. This reconciliation is documented by the employee assigned this responsibility.
- b. When payroll reporting deadlines require that time worked be estimated to the end of a reporting period, controls are established to ensure that the appropriate adjustments are made (after the fact) for differences between estimated and actual time worked.
- c. To ensure that final paychecks are accurately prepared for employees who have been placed in any status under which full standard pay is not to be received (such as terminations, separations, or leaves without pay), final time records are reviewed for accuracy prior to processing final transactions.

Purchasing, Receiving and Disbursements

1. Separation of Duties

A reasonable separation of duties should be established after considering the associated costs, benefits, and available resources. Under optimal conditions, no employee should have complete control over more than one of the following duties:

- a. Placing orders;
- b. Approving purchase requisitions or purchase orders;
- c. Reviewing and processing invoices for payment;
- d. Reviewing and reconciling financial system reports or departmental appropriations and expenditures.

2. Authorization and Approval

- a. Transactions that ultimately will generate a disbursement or expense transfer are entered by designated preparers. Generally, for transmissions over \$2,500 departments create and route them to Purchasing for the issuance of a purchase order (PO). For transactions under \$2,500 departments have been delegated authority to place LVO's (Low-Value Orders) directly with vendors (for exceptions to this general policy consult BUS-43). Preparer access is restricted via privileges specified in the Distributed Administrative Computing Security System (DACSS). Once preparers enter transactions, notices are automatically emailed to reviewers via the Application System Authorization Process (ASAP). Preparers must understand all relevant regulatory requirements and UCLA financial systems and policies. Reviewers must review all transactions within two working days of receipt and resolve all questions that arise and ensure transactions are reversed until the questions are resolved.
- b. Approval authority is controlled through the Chief Administrative Officer (CAO) of each unit who is responsible for identifying which individuals will review and approve transactions via DACSS. The Departmental Security Administrator (DSA) is responsible for the input into DACSS as directed by the CAO. Cancellation of privileges shall be promptly entered by the DSA when employees terminate or responsibilities change.
- c. The fulfillment of terms, the rates, and the charges related to services provided are compared to purchase requisitions, purchase orders, consulting agreements, and contracts.
- d. The issuance of a valid PAC order is authorization for Accounts Payable to process an invoice that is in accordance with the PO terms and University policy. As an added control, a department can specify that it wants to acknowledge receipt of goods or services prior to payment. If the receiving flag is set to "Y" when the order is placed, receipt acknowledgement must be entered into PAC electronically before payment can be released by Accounts Payable.
- e. The Accounts Payable processors review all invoices for payment to ensure that the accounts charged are proper and that payment has not previously been made.

3. Review and Reconciliation

- a. Employees who possess overall knowledge of departmental accounts are assigned to review monthly financial system reports to ensure the validity, accuracy and completeness of all current non-payroll expenditures. This review includes comparing current month expenditures to source documents. This reconciliation is documented by the employee assigned this responsibility.
- b. Original invoice and related backup documentation supporting the order purchases shall be retained by Accounts Payable.

Inventories (Equipment and Supplies)

Where applicable, these guidelines pertain to any inventory whose transfer, damage, disposal or loss would materially affect the value of the department's assets and/or create serious departmental consequences.

1. Separation of Duties

A reasonable separation of duties should be established after considering the associated costs, benefits, and available resources. Under optimal conditions, no employee should have complete control over more than one of the following groups of duties:

- a. Receiving, maintaining or issuing items;
 - b. Preparing and maintaining up-to-date records of the location, transfer, damage, disposal, or loss of inventory;
 - c. Performing annual physical inventory counts or inspections.
2. Authorization and Approval
- a. Requisitions approved by authorized departmental employees are required prior to issuing inventorial equipment or supplies.
 - b. Any adjustment to inventory records (for returned, missing, damaged, obsolete or stolen items) is approved by departmental management. Large adjustments should be supported by written explanations.
3. Custodial and Security Arrangements
- a. Security arrangements used to safeguard inventory against loss through damage, theft, or misappropriation are proportional to its value and removability.
 - b. With the exception of equipment purchased with the intent of off-campus use (such as laptop computers), off-campus use of University equipment shall be discouraged.
 - c. Use of University equipment or supplies for purposes not related to work responsibilities at UCLA is not allowed.
 - d. The fewest number of authorized employees possible shall have access to inventories. Locks, keys, and/or combinations securing movable inventorial equipment or supplies are changed whenever turnover occurs involving personnel who had access to these inventories. A record of keys and/or combinations is maintained by one departmental employee.
4. Review and Reconciliation
- a. Items are inspected for general condition, possible damage, and completeness, prior to their inclusion in the inventory. An employee with custodial responsibility for these items shall perform the inspection.
 - b. Usage is reviewed regularly. Obsolete, inactive, or damaged items are removed from inventory in accordance with established procedures.
 - c. A physical count of inventory should be taken annually. Management shall be advised of significant inventory discrepancies.

Cash Receipts

1. Separation of Duties

A reasonable separation of duties should be established after considering the associated costs, benefits, and available resources. Under optimal conditions, no employee should have complete control over more than one of the following duties:

- a. Receiving and depositing cash (currency, checks or other negotiable instruments);
- b. Recording cash payments to departmental receivable records;
- c. Reconciling cash receipts to deposits and/or financial systems reports;
- d. Billing departmental customers for goods or services;
- e. System access to create journal entries to the general ledger.

2. Authorization and Approval

- a. University bank accounts may be established only with the approval of The Regents acting through the Office of the Treasurer. Campus requests for establishing University bank accounts are made through Business & Finance Solutions.
- b. Individual accountability for cash must be maintained throughout all cash handling operations from receipt through deposit. All transfers of accountability must be documented.
- c. Transfers of cash between two people are jointly verified in the presence of both.
- d. A departmental supervisor verifies and approves cash deposit and transmittal documents, voided transactions, and cash overages and shortages. Known or suspected misappropriations or mysterious disappearances of cash or securities must be reported promptly (See Business and Finance Bulletin G-29).

3. Custodial and Security Arrangements

- a. All cash must be physically safeguarded at all times in accordance with Business and Finance Bulletin, BUS-49, and the UCLA Cash Handling Security Policy which mandates the use of armored transport or armed escort during the transportation of cash to the Administrative Main Cashier or other major cashiering units, and the avoidance of transporting cash at night. Transportation of cash to central cash or branch banks will be by armored transport. Departments may not provide check cashing service.
- b. All documentation requesting payments to the University must inform the payers that their payments must be made payable to The Regents of the University of California, or to the UC Regents. Payee designations other than to The Regents must be approved through the Vice President-Financial Management in consultation with the Treasurer of The Regents. Accountability for each deposit transaction must be maintained.
- c. Departmental cash receipts must be deposited with a major cashiering station at least weekly or whenever collections exceed \$500.00. In addition, collections must be deposited by fiscal year end (June 30). The amount of funds held overnight should be minimized.
- d. Checks and money orders are restrictively endorsed immediately upon receipt with a "UC Regents" stamp.
- e. Un-deposited cash receipts shall be kept in a locked receptacle (drawer, file, cabinet, safe, etc.).
 - 1.) Security provided is proportional to the dollar amount of cash receipts being kept. (Refer to Business and Finance Bulletin, BUS-49, section V., I., or contact the Administrative Main Cashier for more detailed requirements.)
 - 2.) Strict individual accountability for funds is maintained at all times.
 - 3.) Keys and safe combinations must be given only to supervisory and authorized personnel who must commit the combination to memory. A recording of the combination must be sealed and maintained away from the safe area and is restricted to the fewest number of employees possible (of whom at least one shall be at a departmental supervisory or management level). For emergency backup access, a spare set of keys and/or a record of the combination shall be maintained in a locked receptacle in a manner that requires two people together to get physical access to the funds (dual-control).
 - 4.) Keys and safe combinations must be changed whenever a person having the combination leaves the employ of the department. In addition, the combination

must be changed annually. Documentation must be maintained showing the date and reason for combination changes.

- 5.) A record of keys or safe combinations issued shall be maintained by one departmental employee.
 - f. Cash receipts may not be maintained in departmental offices on a permanent basis, and may not be deposited in unauthorized or non-University bank accounts. Funds or property not related to the operation of the University must not be stored in departmental safes.
 - g. Disbursements shall not be made from cash receipts.
 - h. A departmental employee independent of cashiering operations opens departmental mail.
 - i. An employee independent of cashiering operations performs the follow-up and adjustment for returned checks.
 - j. Deposits must be adequately safeguarded while in transit; as required, armored transport service or police protection will be provided (see 3a. above).
 - k. A report of cash collections signed by the preparer must accompany each deposit to a major cashiering station from a cash handling department. An authenticated online report must be accessible to General Accounting, or a copy of the report signed by the preparer must be sent to General Accounting by the department on the day of the deposit. Supporting detail must be provided.
4. Review and Reconciliation
- a. Cash receipts are recorded on the day received. Receipts issued should be preprinted and consecutively numbered.
 - 1.) Departmental accounting personnel are responsible for safeguarding and issuing receipt documents to cashiering personnel.
 - 2.) An original dated receipt is provided to the payer.
 - 3.) Copies of valid receipts and of voided receipts are kept for audit and reconciliation purposes.
 - b. Daily reports of cash receipts are subject to departmental supervisory review and approval.
 - 1.) Cash receipts are reconciled to deposits, and deposits are reconciled to financial system reports.
 - 2.) Cash shortages and overages are promptly reported to, and investigated by, the next higher administrative level.

Petty Cash and Change Funds

1. Authorization and Approval
 - a. Petty cash and change funds shall be authorized and approved by Corporate Accounting.
 - b. A fund may not be established from cash receipts that are not deposited to an authorized bank account.
 - c. A fund is used only in accordance with the purposes agreed to at the time the fund is authorized and always conforms to established University policies and procedures.
 - d. Check requests to reimburse a petty cash fund are approved by a responsible employee who does not have direct access to the petty cash fund. Fund reimbursement is made payable to the fund custodian.

2. Custodial and Security Arrangements

- a. Cash and cash reimbursement vouchers are stored in a locked receptacle (drawer, file, cabinet, safe, etc.). Security provided is proportional to the dollar amount of the fund.
- b. Custodial responsibility for a fund is assigned to only one employee. Custodial responsibility can be redelegated internally to cover absences of less than three weeks. The Assistant Vice Chancellor Business & Finance Solutions must be notified in writing of redelegation when an absence exceeds three weeks.
- c. Petty cash is not to be deposited into an unauthorized or non-University bank account.

3. Review and Reconciliation (Petty Cash Fund Only)

- a. The fund custodian may not make any disbursements without first being presented with a receipt or approved reimbursement voucher documenting the expenditure.
 - 1.) Original receipts are required in order to prevent duplicate reimbursements.
 - 2.) Personal checks and IOU's may not be accepted as valid receipts.
 - 3.) Any person receiving cash must sign an approved reimbursement voucher or receipt for cash received.
- b. The fund custodian shall balance the fund at least monthly and whenever the fund is replenished.
 - 1.) Total cash plus reimbursement vouchers on hand should equal the authorized amount of the fund.
 - 2.) Shortages or overages are reported and promptly investigated by departmental management.
- c. Funds are periodically verified through surprise counts.

4. Review and Reconciliation (Change Fund Only)

- a. The fund custodian shall balance the fund at least daily when in use.
 - 1.) Total cash on hand should equal the change fund plus cash receipts.
 - 2.) A change fund should have a constant balance. Shortages and overages should be reflected when depositing cash receipts and are reported and promptly investigated by departmental management.
- b. Funds are periodically verified through surprise counts.

Billing and Accounts Receivable

The applicability of some parts of this section depends on the extent to which each department performs the billing and accounts receivable functions.

1. Separation of Duties

A reasonable separation of duties should be established after considering the associated costs, benefits, and available resources. Under optimal conditions, no employee should have complete control over more than one of the following duties:

- a. Billing customers for goods or services provided;
- b. Collection;
- c. Establishing departmental credit policies; approving requests for credits, billing cancellations, billing, credits and write-off of debtor accounts;
- d. Receiving, recording and processing payments on receivables (cashiering functions);

- e. Reconciling receivable records to the financial system subsidiary ledger receivable reports.

2. Authorization and Approval

Authorization and approval decisions regarding receivable functions are built into the Billing and Receivables (BAR) system and are in accordance with University Accounting Manual policies and standards.

For non-BAR settings, receivable functions require approval by an authorized supervisory or management level employee when (a) establishing rate and/or billing schedules for charging customers, (b) issuing credit memos and/or billing cancellations, (c) granting credits to customers, or (d) determining which accounts are uncollectible and should be written off.

3. Custodial and Security Arrangements

- a. Departmental invoices are prepared and issued only by authorized personnel.
- b. For BAR applications, invoices are system generated and are assigned numbers in sequential order. Charge and payment transactions are recorded and maintained in the system. For non-BAR applications, invoices are issued in numerical sequence. Copies of voided invoices are kept for audit and reconciliation purposes.
- c. For BAR applications, charge reversals are restricted by system security. For non-BAR applications, blank invoices, credit memos, and cancellation forms are controlled exclusively by personnel assigned invoicing responsibilities.

4. Review and Reconciliation

- a. Monthly financial system subsidiary ledger receivable reports are reviewed by staff with overall knowledge of receivable management. This reconciliation is documented by staff assigned this responsibility.
- b. Delinquent account balances are examined and follow-up with customers is initiated to determine reasons for non-payment. If a reasonable or satisfactory explanation is not received from a debtor regarding the delinquent account, the debtor is precluded from receiving additional credit.
- c. Departmental billing records are periodically compared and reconciled to account balances appearing on financial system subsidiary ledger receivable reports.