Proposal to Enhance Yale's

Internal Control Assurance Framework

Business Operations Planning and Financial Management Steering Team

January 8, 2013

Background

Yale has a system of internal controls that includes policies, approval processes, system controls, monitoring activities, and a regular program of internal audits. In addition, Yale has three tools in place to ensure that delegated internal control responsibilities are implemented and maintained throughout the University:

> 1) A Monthly Financial Management Checklist (Monthly Checklist), comprised of required monitoring activities for units to perform, that business offices complete and submit to the Controller each month;

> 2) A Controls and Business Process Questionnaire (CBPQ) that is completed by business offices and submitted annually to the Controller. The stated purpose is described as an evaluation tool to enable identification and mitigation of risk;

> 3) A set of University policies and procedures that clarify the internal control responsibilities of business offices and dictate the use of the Monthly Checklist and CBPQ.

For purposes of this proposal, we refer to this collective toolset as the *Internal Control Assurance Framework*. This proposal focuses on improvements to that Assurance Framework, not the entire system of internal controls at Yale.

As part of its regular internal audit program, internal audit commonly surfaces issues involving inadequate attention to checklist activities, misunderstanding of checklist activities and their purpose, and incomplete checklists. The University must take action to improve its compliance with its official policy and procedures that govern the use of the Monthly Checklist. Focus groups with users of the Monthly Checklist identified several problems – functional and systemic – thus, limiting the effectiveness of the Monthly Checklist. After discussion of these findings, the Business Operations Planning and Financial Management (PFM) Steering Team recommended that Yale consider improvements to the entire Assurance Framework, rather than simply focus on the Monthly Checklist. The CBPQ, the Monthly Checklist, and the Policies and Procedures that govern internal control responsibilities are interconnected. True and sustainable improvements with internal controls in the units require attention to all three pieces of the Assurance Framework. This document first highlights issues with each of the three pieces, and then proposes possible improvements.

Issues

For many years the Business Operations Leadership Team (BOLT) has been working to clarify and grow the role of the Lead Administrator – a role that was not defined until five years ago. BOLT's view of the Lead Administrator role is of a high level financial leader with authority to implement necessary internal controls, responsibility for broad oversight for their unit's control environment, and accountability for internal control failures. Recommended business models encourage Lead Administrators to delegate routine transactions and detailed transaction reviews to other personnel so that Lead Administrators may focus on strategy, planning, leadership, and oversight. Lead Administrators should and do play a

key internal control role in their units by "setting the tone" for internal controls in partnership with their unit leader, providing financial oversight, and ensuring key control activities are in place and functioning.

Although BOLT provides leadership for the Lead Administrator community, and Lead Administrators manage all other business and finance personnel in their units, the Assurance Framework dictates detailed responsibilities that are largely performed by personnel reporting to a Lead Administrator. Yale's policies and procedures regarding internal controls are vague or silent regarding formal roles for Lead Administrators and BOLT. Consider the following:

1. *Procedure 1101 PR.02, Financial Review & Internal Controls*, mandates the use of the Monthly Checklist. That Checklist specifically requires the signature of an "Operations Manager" to certify compliance with the applicable Financial Controls Policy. Some Lead Administrators do complete the checklist themselves, as not all units have Operations Managers. However, the Checklist is generally viewed as an Operations Manager responsibility. The Controller is responsible for the Procedure and Checklist. BOLT has no officially stated role.

2. The Controls and Business Process Questionnaire (CBPQ), as required by *Procedure 1101 PR.01, Controls and Business Process Questionnaire,* is annually sent to each Lead Administrator with instructions to "forward to Operations Managers and others, if appropriate". Delegating completion of the Questionnaire appears to be common. Completed Questionnaires are sent directly from these delegated personnel back to the Controller's Office through the electronic survey tool. There is no requirement that the Lead Administrator themselves answer the survey, and no efficient mechanism for the Lead Administrator or BOLT to see the results of surveys that were forwarded to delegated personnel.

3. *Policy 1101, Guiding Principles for Business and Financial Administration,* which outlines key financial management responsibilities and roles (written prior to the creation of the Lead Administrator role), does not define a role for a Lead Administrator. It defines a role for the "School and Department Administrative/Business Offices". Procedure 1101 PR.02 defines a role for "Business Managers". Procedure 1101 PR.01 refers to "Lead Administrators or Operations Managers" as if the roles are interchangeable.

Aside from role clarity, there are several other issues with each of these tools. Users have documented several known problems with the Monthly Checklist (See Appendix A). These problems range from antiquated tasks, to unclear purpose of some tasks, to unwieldy University reports that users are required to use but are inferior to internal reports produced by units. Further, departments have many other control activities that are not on the list at all. These issues limit the Checklist's effectiveness as an internal control tool. Users report that some Monthly Checklist items feel like a "check the box" exercise, rather than a value added activity. The process for periodically improving the Monthly Checklist is not easy, as the details of the list are written into a University Procedure, which requires a formal review process to be changed.

The CBPQ is comprised of over 200 questions that each unit annually answers about their internal control processes and compliance. The CBPQ questions are individually written by each office that has jurisdiction over a certain area of compliance (e.g., Research, Purchasing, Gift Administration). This is

evident, as the tone and intended audience of each question varies considerably. Some questions should be answered by the Lead Administrator, such as questions about the control environment. However, most questions are about a specific policy or task and are best delegated to the person most familiar with that area, who is often one or two reporting levels below the Lead Administrator. The purpose of the questions varies. Many questions serve as useful reminders of policy and process, and other questions ask for verification that the unit is in compliance or has done something accurately. Many questions are open to interpretation. For example, several questions ask "is the department aware". Does that mean at least one person, or every single person in the department? Does "aware" mean that one received recent training, or does it mean they received an email several years ago?

All questions on the CBPQ are dichotomous (i.e., yes or no). The instructions are clear that a "no" answer represents a weakness and should be corrected, creating an incentive to answer "yes". In fact, there is a very low rate of "no" responses. While we would like to assume that "yes" answers mean weaknesses are being corrected, audit findings and known compliance issues suggest otherwise. That does not imply that CBPQ responses are untruthful. Question vagueness and lack of clear guidance on adequate correction of a weakness can lead to differences of opinion. ([See Appendix B for CBPQ question examples](#))

The questionnaire is quite helpful in reminding employees about specific control actions they should take and probably results in better controls than most departments would have otherwise. However, it could be improved to better serve as a useful tool for Lead Administrators and the Controller's Office to use in understanding risks, gaps in controls, and initiating discussion within units and with the Controller about mitigation.

Units are audited on their adherence to University Policies and Procedures. The procedure for Financial Review & Internal Control was first written at a time when no best practice guidance for business offices existed and was incredibly useful in providing guidance to business offices and driving discussion about the appropriate level of financial review. The Procedure, however, is eight pages long and contains policy-level information as well as very detailed procedural steps, including names of specific reports to run. The Procedure documents and duplicates all the guidance found in the Monthly Checklist. This means the contents of the Monthly Checklist cannot be substantially altered without also following formal approval steps to modify the University Procedure.

In summary, Yale's approach to internal controls in units has been for central authorities to prescribe mandatory task requirements through the development of detailed procedures, mandatory checklists, and reliance on internal audits that focus on verifying that these mandatory tasks have been performed. The execution of these task requirements is generally performed by staff who report to a Lead Administrator. In essence, the Lead Administrator is bypassed in determining the best and most effective way controls are executed within their unit, thus minimized in the overall framework. In addition, creating and maintaining a set of detailed processes that are capable of meeting the situation and needs of every business office is quite difficult. The result is a high rate of non-compliance with procedures and checklists.

Proposed Solutions

The Business Operations PFM team has three broad recommendations that would assist in guiding future improvements to Yale's system of internal controls, and seven recommended action items to be implemented by June 30, 2014. These recommendations will serve to clarify and enhance the Internal Control Assurance Framework.

<u>**Broad Recommendations**</u>

1. ***Strengthen the internal control framework by providing Lead Administrators with authority, flexibility, and accountability to decide how appropriate control activities are performed in their units.*** Lead Administrators are responsible and accountable for financial oversight and the internal control environment in their units, and should have authority and flexibility to implement and utilize controls that are appropriate for their unit. By strengthening and clarifying the internal control responsibilities of the Lead Administrator as distinct from other roles (to which they may delegate responsibilities), an important oversight and control responsibility will be added to the system of internal controls. Reminder checklists and best practices guides are valuable tools, but Lead Administrators, not central authorities, are in the best position to decide how specific tasks will be performed. Rather than having University Policies and Procedures specify tasks to be executed by personnel reporting to Lead Administrators, Yale should move toward an environment where the responsibilities of Lead Administrators are clear, Lead Administrators are provided with adequate training and tools, and Lead Administrators are held accountable for proper oversight and the maintenance of appropriate controls in their units.

2. ***Propagate the use of written guides, by transferring ownership of such documentation from the formal University Policies and Procedures approval process to the people best suited to provide such leadership.*** The development of University Policies, Procedures, and Guides should be clarified and standardized across the University. Policies should state the University policy that must be adhered to; likewise, Procedures should explain the University-level requirement and approval steps that are necessary for completing a process. Hence, both are subject to audit. Conversely, guides such as best practices, tips, and reminder checklists for department processes, reports to review, and by whom specific tasks are to be performed should not be written into Policy or a University Procedure. These are, of course, important internal control tools in any complex environment. Maintaining the dynamic characteristic of these tools is essential. Internal business processes must regularly change and improve as systems change and new best practices emerge. While guidance for these internal business processes should include central function owner input to ensure fit within the University's business operating framework and to promote University-wide consistency, it should not be viewed as either policy or procedure, and consequently subject to audit.[1] Ownership of guidance documents should rest with the office or offices best suited to provide such guidance.

---

[1] It would be reasonable for an Official Policy or Procedure to require the use of a monthly checklist, but not to mandate a specific checklist. Units could be audited on the existence and adequacy of a checklist, and even asked to show evidence that they performed the tasks they have listed. The difficulty arises when units are audited against a standard list that doesn't meet the needs of every unit.

3. ***As we revamp University Policies and Procedures to transfer documentation of best practices, tips, and checklists, it is paramount that we clarify BOLT's function over the development and maintenance of these items.*** The Business Operations Leadership Team (BOLT) Charter established its leadership of business offices across campus and its accountability for the effective operations of those offices and their functions. Specifically the document charges BOLT with "Assuring excellent financial management and strong financial controls…", "Ensuring a robust internal control environment is in place…", and "…developing and propagating best practices across all units", among many other responsibilities. [2] As we revise University Policies and Procedures to eliminate best practices, tips, and checklists from formal documents, it is important to explicate the role of BOLT to ensure common best practices and maintain a strong internal control environment. As an important piece of the University's internal control framework, BOLT has the management authority to develop best practices and checklists and mandate specific actions without codifying into formal policy. Just as any unit is subject to an audit of its control procedures (not just its adherence to written policy), BOLT's internal control practices are also subject to audit in order to assure a strong framework.

Recommended Immediate Actions to be implemented by June 30, 2014

1. *Revise University Policy 1101, Guiding Principles for Business and Financial Administration*, to clarify and strengthen the role, responsibility, and accountability of the Lead Administrator in maintaining sound controls and a strong control environment in their units.
2. *Revise Procedure 1101 PR.02, Financial Review & Internal Controls*, to eliminate step by step department tasks, specific reports that must be run and reviewed, and the mandatory requirement to use a specific checklist. These tips and best practices can be moved to a guide, if appropriate, that is not subject to audit. Incorporate into the procedure the framework for this new internal control assurance framework, including the role of BOLT vis-à-vis internal controls and common practices, to ensure clarity about institutional requirements (which would be subject to internal audit).
3. *Move ownership of the Monthly Checklist to Business Operations* and charge a team of Lead Administrators, Operations Managers, and other Business Operations staff with creating a recommended Monthly Financial Review Checklist to be approved by BOLT and utilized at the discretion of the Lead Administrator.
4. *The CBPQ will be improved to position it as an evaluation and discussion tool that facilitates continuous improvement of unit internal controls.* Care should be taken to ensure that questions are clear and serve an evaluative purpose. Emphasis will be placed on providing accurate evaluations of controls and identification of risks. Responses must be easily accessible by those with direct

---

[2] The BOLT Charter was created in 2007, updated in 2011, and describes a much broader responsibility for leadership of Business Operations than is included in this document. The full charter can be found on the Business Operations web site.

responsibility for improving and maintaining controls. To facilitate the appropriate level of discussion the CBPQ would be broken into two separate questionnaires:

    a. An annual *Environmental Controls Questionnaire* that must be answered by Lead Administrators, which will contain questions regarding their responsibility to communicate policies, share information, identify potential risks, ensure staff are properly trained, and maintain a sound control environment. Results of this questionnaire will be meant to facilitate discussion between BOLT members and Lead Administrators, with input from the Controller and Internal Audit as appropriate. ([See Appendix C for examples](#))

    b. An annual *Revised Controls and Business Process Questionnaire* that contains questions about processes and specific compliance issues, and could be appropriately delegated by the Lead Administrator to others in their unit. Responses will be returned to the Lead Administrator and BOLT. The goal of this questionnaire is to facilitate discussion between Lead Administrators and their staff, with input from BOLT, the Controller, and Internal Audit as appropriate.

5. *A new Lead Administrator attestation statement will be created* and signed annually by each Lead Administrator. The statement may ask Lead Administrators to attest that they have evaluated the adequacy of their internal controls, disclosed material weaknesses in the internal controls, and that financial statements are accurate to the best of their knowledge.

6. *Revise Procedure 1101 PR.01, Controls and Business Process Questionnaire,* to reflect new CBPQ process as proposed above.

7. *Provide training for Lead Administrators* for these new policies and their internal controls responsibilities, including how to maintain a sound control environment, how to evaluate controls, and other internal control oversight training.

Concept proposed on January 8, 2014 by Business Operations Planning and Financial Management Steering Team with input from Deb Armitage, Doug Bebbington, and Tracy Walters.

Concept approved by Shauna King on January 24, 2014.

Business Operations Planning and Financial Management Steering Team Members:

Brent Dickman, BOLT (Chair)

Joanne Bentley, Faculty Research Management Services

Carrie Capezzone, BOLT, School of Medicine

Margaret Gilshannon, Orthopaedics & Rehabilitation

John Kaufhold, Facilities

Steve Murphy, Finance & Controller's Office

Debbie Pearlman, Psychiatry

Holly Piscatelli, BOLT, Officer Units

Sue Wells, Forestry

Jim Westgate, Psychology

Form 1101 FR.01 Financial Management Checklist

Revision Date: 2/8/2013

Dept / Org Unit (s):		Fiscal Period:		Completed By:	

Minimum Review Cycle	Process	Recommended Reports & Tools **	Comments *(optional)*	Dept.	YSSC
Monthly	**Pre-Closing Activities**			Initials	
	Review Accounts Payable invoices on hold; clear as soon as possible (usually within 30 days)	Review Tool, PROCINV1 Invoice Holds; AP Worklist			
	Review Accounts Payable invoices in AP PTAEO Bounce Project 1001283; clear as soon as possible (usually within 30 days)	Review Tool orAccount Holder Report for Project 1001283			
	Review Labor suspense Project 0300018; clear as soon as possible (usually within 30 days)	Review Tool or BUG 102a Labor Suspense Report; Account Holder Report for Project 0300018			
	Review unprocessed and unapproved EMS transactions	DWH Portal "FIN EM1" Report - Unprocessed EMS Transactions View and Unapproved ERs View			
	Review the following Payroll Preview Reports before payrolls are processed to ensure that salary charging is correct: · Weekly Payroll Preview Report · Monthly Payroll Preview Report · Semi-Monthly GSPS Labor Commitments Exception Report	Weekly Payroll Preview Report, Monthly Payroll Preview Reports, Semi-Monthly GSPS Labor Commitments Exception Report (BUG 311a)			
	Month-End Activities				
	Review and investigate as necessary those transactions recommended for after-the-fact review in the Financial Review Guidelines. These transactions include: ER's and Sciquest transactions not routed for dept approval; OK-to-Pay invoices; Sub-Award Payments; Shipping transactions; ISP Transactions; JSA/LDA transactions approved outside your department; typical F&A Transactions on a sponsored awards; Unallowable Expenses, Misc Revenues & Expenses, Interfund Transfers, and Income and Expense Reclasses.	Activity Review Report			
	Review selected EMS activity and trends using the EMS Monitoring tool	EMS Monitoring Tool			
	Distribute financial reports to PIs and other Account Holders	Account Holder Report package including: Account Summary, Payee Trend, Commitments Report			
	Financial Management				
	Review ongoing maintenance and yearly review of delegated authority and access	Procedure 1104 PR.01 and Access Review Report			
	Review budget variances; document and communicate reason for significant variances, where applicable	Review Tool or Account Holder Report, Position Plan Report with MP0			
	Review non-GA fund balances, develop plan to clear deficits, and communicate as required	Review Tool, or Fund Balance Activity Report			
	Review financial status of sponsored awards, and work with GCFA to clear any deficits and close out terminating awards	Review Tool, or Award Summary Report			
Quarterly	Review current activity trends across multiple periods (such monthly activity trends, and prior year to date trends, and multiple YTD comparison) Significant variations, unfamiliar vendors, or other unusual issues may require the selected review of underling transactions.	Review Tool, or AHR Payee Trend Report; Bug 402a-Compare Period Actuals			
	Review revenues, expenditures, and net changes across source groups	Review Tool; Source Group Activity Report; BUG 403a Calculated Source Balances; Fund Balance Activity Report			
	Review Asset & Liability balances, if applicable	Review Tool, or BUG 309a Assets & Liabilities			
	Review outstanding Accounts Receivable balances *(School of Medicine)*	YSM Accounts Receivable Aging Report			
	Other financial reviews required for your department				

I have reviewed our department's accounts and have considered Procedure*1101 PR.02 Financial Controls and Monthly Review.*

Name:	
Operations Manager:	
	Date:

** If custom or locally developed reports are used and/or distributed in addition to the institutionally provided standard financial reports, these reports must be reconciled to the institutional reports of record and registered with your appropriate BOLT member.

This signed checklist must be stored in department folders at the following shared drive: \\med1\home\YSMFIN

Appendix B

Examples and Issues with Current CBPQ Questions

1. Process specific questions:

    "Is a specific description of each receipt entered into RIF?"

    "Is program income recorded as a contra-expense (credit) in the program income expenditure type 911601?"

2. Control environment questions:

    "In the event of any adverse control or financial issue (e.g., fraud, misuse of funds) is the appropriate authority (Controller, BOLT, University Auditing or General Counsel) notified?"

    "Are potential internal control risks communicated to employees?"

3. Training and Policy communication questions are phrased in a variety of ways, often asking about the knowledge of other people, rather than asking about specific actions that are within the user's control:

    "Are authorized purchasers aware of the University Buying Guide…"

    "Are all supervisors and employees aware of the recommendation to review the Office of International Affairs website for pre-departure steps…"

    "Is the department aware of the Internal Revenue Service prohibition on the University's participation in partisan political activities?"

    "Do financial reviewers and transaction approvers have a thorough knowledge of the University Chart of Accounts and the appropriate classification of financial activity in accordance with reporting requirements?"

    Example of fact or action based question – "Have all individuals who originate or approve sponsored research transactions been properly trained on their fiscal responsibility pertaining to grants management?"

4. Some questions ask about the department's compliance or performance. The answer is always "yes" or "no" (with strong inference that the correct answer is "yes") when perhaps a range of answers would facilitate a true evaluation of where a department struggles to comply.

    "Does the department return accurate financial information to GCFA in adequate time to enable review and timely filing of Financial Status Reports (FSRs)?"

    "Are invoices submitted for processing promptly upon receipt?"

    "Are unallowable costs charged to non-sponsored departmental accounts using expenditure types classified as unallowable?"

    "Are competitive bids or single/sole source and receipt of goods documentation obtained as required by University Policy?"

    "Are I-9s completed by the end of the employee's third day of work and is its receipt entered into Oracle, and is the Missing or Expired I-9 report run at least quarterly from the DWH Portal?"

Appendix C

Examples of CBPQ Question that should be answered by Lead Administrators

These questions are only meant to represent the level of question that a Lead Administrator would be required to answer. They are not actual proposed questions.

- Have you ensured that the Standard of Business Conduct has been distributed to all staff and faculty in your unit within the past year?

- Have you ensured that University travel and business entertainment policies have been communicated to all personnel who travel or process travel?

- Have you discussed your unit's financial position with your unit leader, including fund balances, year to date actuals, significant variances and year-end forecasts?

- Have you informed your BOLT member of significant financial or internal control risks in your unit?

- Has each of your units completed and discussed with you the annual Controls and Business Process Questionnaire?

- Have all individuals who originate or approve sponsored research transactions been properly trained on their fiscal responsibility pertaining to grants management?

- Does each of the business units reporting to you utilize a monthly financial management checklist that you have approved as adequate for monitoring the unit's financial activity?