Business at Penn Overview

Knowledge Building

Use the navigational buttons on each slide to pause, and to move forward or back through the presentation.

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Business at Penn - Objectives

- Understand how business is conducted at Penn and your responsibility to be a ‘good steward’
- Understand that Schools/Centers have been given authority to operate as their own ‘business unit’
  - This is known as ‘Responsibility Center Management’ (RCM)
- Understand the financial and accounting structures that underlie RCM
- Understand the features of the BEN system at a high level and the terminology used at Penn
Business at Penn Overview

What is ‘Stewardship’ and Why is it Important?
Principles of Responsible Conduct

- Everyone at Penn has an explicit obligation to adhere to the Principals of Responsible Conduct
  - These principles set the tone for expected behavior
  - Serve as the underpinning of important University policies and regulations

- To ensure that we maintain the highest ethical and compliance standards, the University provides a hotline and website where you can:
  - Raise questions or concerns if you suspect violations of policy or legal requirements
  - Anonymously report violations of Penn policies at the P-COMPLY hotline
Stewardship Responsibility

- Penn believes in conducting its financial affairs in a spirit of transparency
  - Penn’s financial reports provide information about how resources are being acquired and used
- Who wants to know how Penn acquires and uses resources?
  - Lenders
  - Donors
  - Government Agencies
  - Penn Board of Trustees
  - Penn Management
  - Students
  - Parents
Stewardship Responsibility (cont’d)

- Penn’s reputation as a **good steward** is its most important asset
- It’s in everyone's long-term interest to manage Penn’s resources wisely, because:
  - More funds will be available to help Penn achieve its goals
  - Penn will be better prepared to meet rapidly changing financial conditions, for example:
    - Changes in the state appropriation
    - Uncertain investment returns
    - Greater demands for student aid
  - Penn will be better able to fulfill its mission well into the future
Stewardship Responsibility (cont’d)

- **You** give Penn the ability to fulfill its stewardship responsibilities
  - You have the **authority** to originate financial transactions
  - You also have the **responsibility** to safeguard Penn’s resources and record financial activity correctly
- You will be held accountable to get it right

- Effective job performance and ‘doing it right’ the first time is important because:
  - It saves time and money
  - It eliminates rework and wasted effort
  - It provides good quality data for planning and management purposes
Business at Penn Overview

What is Penn’s Financial Accounting System?
- BEN Financials
BEN System Components

- The *Business Enterprise Network (BEN)* is the network of financial systems used by Penn, its components are:
  - BEN Financials
    - BEN Assets (Property Management)
    - BEN Balances (General Ledger)
    - BEN Buys (Purchasing)
    - BEN Pays (Accounts Payable)
  - BEN Deposits (Cash deposits)
BEN System Components

- BEN has been in use since 2002
  - BEN experiences a high level of stability
  - Periodic upgrades keep BEN current with business needs and software advances
- **BEN training** is conducted on an on-going basis via Trainer led workshops and web-based training
- Help Desk support via 6-HELP (6-4357) and the web-based ‘BEN Knows’ provide reliable support and problem resolution
Business at Penn Overview

How does Penn Structure its Accounting ‘Books’?
Accounting Periods

- Funds (i.e. monies) are designated, and financial transactions recorded according into a Fiscal Year or a Project Period structure.

- Each accounting period is defined as one calendar month (e.g. March, April, May, etc.).

- Accounting periods are either OPEN or CLOSED:
  - You cannot process ‘actual’ financial transactions to a closed period.
  - This applies to both Fiscal Year and Project Period transactions.
Accounting Periods – Fiscal Year Funds

- Accounting periods for **Fiscal Year** funds begin on July 1 and end on June 30
  - The Fiscal Year consists of 13 accounting periods
    - The Fiscal Year accounting periods are the 12 standard months and a short adjustment period at the end of the Fiscal Year (designated as ‘ADJ-YY’)
  - Fiscal Year accounting periods are either OPEN or CLOSED
    - You cannot process ‘actual’ financial transactions to a closed period
Accounting Periods – Project Period

- Accounting periods can also be defined according to a **Project Period** structure
  - Project start and end dates are defined by the Sponsor of the project (e.g. NIH, DOD, etc.) for reporting
  - Start and end dates may cross Fiscal Years and even run for durations greater than 12 months
  - Project Period accounting periods are either OPEN or CLOSED
- You cannot record ‘actual’ financial transactions to a closed period
Business at Penn Overview

What is a Budget and How are BudgetsHandled at Penn?
Budgets

- Before any money can be spent, a **budget** must be established
  - Budgets function as planning tools which document how resources (i.e. money) are acquired and spent
  - Budgets plan for both revenues and expenses
- Budgets span a period of time, either:
  - Fiscal Year or Project Periods
- Once approved, budgets provide authority to acquire goods or services, and make payments
Budgets – School and Center Responsibility

- Each School/Center is responsible for managing a predetermined amount of University money, known as a Fund.
- Each School/Center may have a variety of Funds to work with:
  - A School/Center subdivides the funds among its organizations (i.e. departments)
  - Funds are further divided by general funds, endowments, gifts, and grants and contracts
    - Some funds have restrictions on when and how the fund can be used
Fiscal Year operating budgets are prepared and entered in the Budget Planning System (Hyperion) annually, and finalized around May/June of each year. These budgets are subsequently uploaded into BEN Financials on the first day of the new Fiscal Year.

Capital budgets, grants and contracts, and new gifts are entered directly into BEN Financials via a Budget Journal Entry, as needed, at any time of the year.

BEN Financials is used to track and manage budget performance throughout the course of the Fiscal Year or Project Period.
Budgets – Tracking and Management

- In order to avoid budget deficits, the BEN Financials system allows you to perform ‘funds checking’ before spending from your budget
  - ‘Budget balances available’ are updated, real-time, in BEN through the use of an **encumbrance**, and reflect the next day in **General Ledger** reports
    - An encumbrance reserves money that will be paid at some point in the future

- Financial reports and on-line tools allow you to track the progress of your actual financial performance against the budget plan in the **General Ledger**
Business at Penn Overview

How are Goods and Services Purchased and Paid For?

- BEN Buys
- BEN Pays
Purchasing - BEN Buys

- Following the RCM philosophy, the purchasing function is decentralized to the department level
  - This allows you, at the departmental level, to select the most appropriate Supplier for the goods and/or services you require
  - It also allows Penn's Purchasing Services Department to concentrate its efforts on securing the best overall prices and terms from Penn’s Suppliers

- Using the BEN Buys application, users create Requisitions which, when approved, generate Purchase Orders (POs)
Purchasing - BEN Buys Requisitions

- Requisitions are created via BEN Buys
  - A Requisition is an internal, electronic document used for initiating and managing your requests for goods & services
  - **Requisitions** can be created in BEN Buys either by a ‘Requisitioner’ or a ‘PO Manager’
  - Requisitions are created from
    - **The Penn Marketplace** (web based supply catalogs)
    - Create **Non-Marketplace Requests** (e.g. catering)
  - **Requisitions** become **Purchase Orders** when they are approved by a ‘PO Manager’
Purchasing - BEN Buys Purchase Orders

- Approved Requisitions become Purchase Orders (PO)
  - Purchase Orders are legally binding documents to secure goods and services from an external Supplier
  - Purchase Orders are generated by first creating a Requisition, and then having it appropriately approved by a PO Manager
  - Upon approval a Purchase Order will be
    - Sent to the Supplier if it is within a PO Manager’s approval authority or
    - If the dollar value of the Purchase Order is greater than the PO Manager’s authority
      - The Purchase Order is moved electronically through an established approval hierarchy before being sent to the Supplier
Purchasing - BEN Buys Approval Hierarchy

- Following the RCM philosophy, a hierarchy of approvers is established at the School/Center level
  - This provides an internal control in Penn’s decentralized purchasing environment
  - This serves as an additional review of purchases to ensure that they are appropriate for the department
  - Approval hierarchies are based on spending authorization limits for each individual PO Manager within the hierarchy
- Each School/Center establishes their own approval hierarchy
Purchasing - BEN Buys Funding Your PO

- All purchases must indicate the source of funding
  - At the time a requisition is created, a Requisitioner or PO Manager enters one or more budgeted account numbers into BEN Buys
  - BEN Buys automatically ‘checks funds’ to see if enough money is available for the amount of the requisition
    - Funds Available = Total Budget – Actual $ Spent – Encumbrances
    - This ‘funds checking’ looks at the money available across all expense dollars budgeted, not just the specific expense category for the item(s) being purchased
Purchasing - BEN Buys Funds Checking

- BEN Buys checks the General Ledger fund(s) being used for the purchase, and if not enough money is available:
  - You get a warning, and you should:
    - Find another source of funding, if appropriate
    - Don’t make the purchase and spend the money
    - Adjust the budget in the General Ledger (GL) as appropriate

- If money is available for the requisition, the Requisitioner is authorized to ‘submit’ the requisition for approval
Purchasing - BEN Buys Dollar Limit Rule

- BEN Buys has a built in ‘Dollar Limit’ rule
  - If the dollar amount of the purchase exceeds the requestor’s approval authority, BEN Buys routes the requisition to a ‘Default Approver’
    - A person who has only the ‘Requisitioner’ responsibility has no spending authority
    - Each PO Manager has a spending limit defined by their School/Center
  - Spending limit and Default Approver information is established by your School/Center when completing your BEN Financials Access Request eForm
Purchasing - BEN Buys PO’s $5,000 and Up

- Purchase Orders approved through the School/Center approval hierarchy are sent to the Supplier, except:
  - Purchase Orders of $5,000 or greater are additionally routed to Purchasing Services for approval
- Once fully approved, BEN Buys sends Purchase Orders to the Supplier via:
  - Electronically via data interchange (EDI)
  - Via fax
  - Via hard copy US mail
- Information about a Purchase Orders routing history is seen via BEN Buys
Purchasing - BEN Buys Business Owner

- **Purchasing Services** is the business process owner for all of Penn’s procurement programs, and maintains:
  - Supplier lists
  - Penn Marketplace information
  - Deliver-to locations
  - Approval hierarchies

- Review the Purchasing Services web site for more information such as Purchasing Policies, Commodity Buying Tips, Suppliers, and other important purchasing information
Paying Invoices – BEN Pays

- **Accounts Payable** enters invoices into BEN Pays
  - Invoices are scanned and matched to a Purchase Order
  - Discrepancies are routed to the PO Manager for resolution

- Invoice amounts are posted to the General Ledger
  - Purchase Order encumbrances are relieved and actual expenses recorded

- Payment is made to Supplier
  - Note: For PO’s $5,000 and greater, acknowledgment of the receipt of goods must be entered in BEN Buys before payment will be made
Business at Penn Overview

What is the General Ledger?
– BEN Balances
The General Ledger (G/L) is the repository for all accounting transactions – referred to as ‘journals’
- Journals come from a variety of sources:
  - Manual Journals – adjustments and corrections
  - Service Center charges
  - Feeder Systems (Payroll, Mail, Phone, etc.)
  - Budget Journals – new gifts, grants, budget reallocations
General Ledger - Manual Journals

- Manual Journals are entered via the Manual Journal Entry Responsibility
  - Manual Journals are used for entering:
    - Error corrections
    - Cost reallocations
    - Service Center billings
    - Resource transfers
  - Posting Journals
    - Journals are posted automatically every night
    - You can change your journal entries up until the time they are posted
    - Once a journal is posted, it cannot be changed
General Ledger - Budget Journals

- Budget Journals are entered via BEN Budget Journal Entry
  - Budget Journals are used for entering:
    - Capital budgets
    - Grants and contracts
    - New gifts
    - Budget reallocations
    - Budget increases/decreases
  - Posting Journals
    - Journals are posted automatically every night
    - You can change your journal entries up until the time they are posted
    - Once a journal is posted, it cannot be changed
General Ledger - Feeder System Journals

- Feeder System Journals post to the General Ledger via BEN
  Balances from a variety of source systems:
    - Payroll
    - Central Gifts
    - Student Billing (SFS/BSR)
    - University Services, for example:
      - Telephone
      - Mail
      - Physical Plant
      - Network Charges (ISC)
The **Salary Management** system consolidates payroll amounts and sends summary Payroll data to the G/L via BEN Balances

- Detailed payroll data is **not** available in the General Ledger through BEN Balances

- **Salary Management** acts as an interface between the Payroll System and the General Ledger, and it:
  - Creates salary encumbrances for BEN Balances
  - Provides on-line inquiry and reporting of salary details by person or account
  - Is used for payroll reallocations
  - Is used for effort reporting on grants and contracts
Business at Penn Overview

What is Financial Reporting?
Financial Reporting - Overview

- Penn operates a decentralized financial management model which is referred to as Responsibility Center Management (RCM)
- Penn is the umbrella framework that combines all academic, administrative, and research units
- Centrally, Penn provides planning, operations services, and oversight; for example:
  - Budget Management
  - Comptroller and Treasurer
  - Security and Facilities
  - Audit and Compliance
  - Telecommunications and Informational Systems
Financial Reporting - Overview

- Under RCM, business units are given the authority and ability to plan and administer business themselves.
- This is helpful as many of the business units differ in terms of:
  - The work that they do
  - Their goals and priorities
- This allows each unit to develop plans that maximize its own business, which in turn helps Penn grow in a smart and efficient manner.
- RCM also allows Penn to coordinate the many competing interests of the individual business units so that the activities of one unit will not act as a detriment to the others.
Financial Reporting - Overview

- Penn uses Responsibility Center Management (RCM) as its managerial framework for internal budgeting and financial reporting activities
  - However, to comply with external reporting requirements, Penn’s financial performance is reported in accordance with Generally Accepted Accounting Principles (GAAP)
  - There are some differences between RCM and GAAP reporting in areas that include:
    - Student Aid
    - Contributions
    - Investment Income
    - Current Expense
Financial Reporting - Overview

- The University’s financial systems record and report on business transactions in such a way that both RCM and GAAP requirements are accommodated
  - Each transaction contains a variety of data that embeds accounting information facilitating reporting for both RCM and GAAP
  - Each transaction also indicates if the transaction is a debit or a credit

- To facilitate recording and reporting, transactions are grouped into ‘accounts’
  - The grouping of accounts is called the Chart of Accounts (COA)
Financial Reporting – Chart of Accounts

- Accounts are necessary in order to budget and report financial activity.
- Accounts allow for the standard accounting classifications of:
  - Assets - what we own
  - Liabilities - what we owe
  - Net Assets - what we own (assets) minus what we owe (liabilities)
  - Revenues - incoming funds
  - Expenses - outgoing funds
Financial Reporting - Statements

- Financial statements summarize activity in the various financial accounts and include:
  - Statement of Financial Position
    - A summary of Assets, Liabilities, and Net Assets – this tells us about our financial position at a point in time
  - Statement of Activities
    - Summary of revenues and expenses – this tells us about our financial performance over a period of time (e.g. fiscal year)
    - Identifies the amount of money coming into and going out from the University
Financial Reporting – A Complex Structure

- If the University conducted business as a single entity then a relatively simple COA might suffice
- This is not the case
  - At Penn, there are multiple Schools and Centers with a wide range of activities
  - Schools and Centers are further divided into
    - Academic Departments
    - Research Institutes/Centers
    - Service Centers
Financial Reporting – Levels of Reporting

- The RCM model requires each School/Center to run as a separate business unit with its own set of financial responsibilities and reports
  - The sum of financial activities for a particular School/Center reflects the overall financial position and performance of that School/Center
- The sum of the financial activities for all of the Schools/Centers reflects the overall financial position and performance of the University as a whole
Financial Reporting – COA Flexibility

- The COA facilitates reporting from a variety of different ‘views’, and allows Penn to:
  - Record and measure the financial activities of various Schools/Centers and their individual units (departments)
  - Track activities that cross School and organizational boundaries
  - Aggregate or ‘roll up’ these diverse financial activities at progressively higher organizational levels
  - Categorize all financial transactions as Assets, Liabilities, Revenues or Expenses
Business at Penn Overview – Quiz Instructions

- Ready to begin the quiz?
  - In order to receive credit for completing this course, you must successfully complete the quiz with a score of 100%
  - If you would like to review the material before proceeding, navigate to a specific topic and review the material
  - You may retake the quiz as needed by clicking on [Retry Quiz]
  - Important! Be sure to click on [Finish] when you have successfully completed the quiz
Penn records its financial transactions according to a (select all that apply).....

- Fiscal Year structure
- Mixed Period structure
- Calendar Year structure
- Concurrent Year structure
- Project Period structure