

System-wide Policy: FI0312 - Custody of Third-party Funds	
Version: 3	Effective Date: 05/18/2023

FI0312 – Custody of Third-party Funds

SECTION 1. Policy Statement

I. Nature of Third-Party Funds

- A. The University routinely receives and maintains custody of third-party (non-University) funds, from various sources. Third-party funds are funds held by the University and are property of the third party who gave the University custody of the funds. In other words, agency funds are purely custodial and the University cannot use agency funds to support the University's business activities.
- B. To qualify as a third-party fund, the funds must meet all of the following criteria:
 - 1. The funds do **not** belong to the University; and
 - 2. The University must **not** have administrative involvement or direct financial involvement of the funds. (Some examples of administrative involvement and direct financial involvement are monitoring compliance, making determinations for the eligibility of the expenditures, and exercising discretion over how the assets are to be allocated.)
- C. Examples of third-party funds include, but are not limited to: federal direct loans; retainage on construction projects; national and international conference accounts; private scholarships; student organization accounts; and fraternity and sorority maintenance and reserve accounts.
- D. Funds that are governed by this policy are not University funds and, therefore, are not subject to the University's policies related to procurement.
- E. For clarity: grant funds are **not** considered third-party funds because the University owns the grant funds and exercises administrative involvement over the funds.

II. Third-Party Solely Responsible for Contracts/Purchasing Documentation

- A. The University does not issue purchase orders or contracts when paying out agency funds.
- B. The third-party owner of the funds is solely responsible for all contractual or purchasing arrangements.

III. Standard Approach

- A. Generally, the University must minimize the need to serve as a custodian (an agency that has custody) of third-party funds, unless the department establishes an agency account in the University's accounting system.
- B. The University's standard practice is for departments to establish agency fund accounts.
- C. When a department determines that it is in the University's best interest to maintain custody of third-party funds, the department must consult with the applicable Chief

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Business Officer. The applicable Chief Business Officer will determine which department staff member(s) will be responsible for maintaining the third-party funds.

- D. The University will publish annually all third-party funds over which it has custody in the University's Annual Financial Report.
- E. When handling third-party funds, departments must comply with all applicable University policies and procedures.

IV. Approval Requirements

- A. To establish an agency account, the department head must forward a written request to the applicable Chief Business Officer or designee. The department head must specify in the written request:
 - 1.The scope of the University's employees' duties in handling the third-party funds.
 - 2.The period during which the University will have custody of the funds.
 - 3.The amount involved.
 - 4.A detailed explanation why it is in the University's best interest for the University to serve as a custodian for the third-party funds.
- B. Employees must not accept custody of third-party funds until the applicable Chief Business Officer or designee issues a written approval of the department's request.

V. Recordkeeping and Procedures

- A. Recordkeeping
 - 1.Departments must keep the applicable Chief Business Officer or designee's approval on file.
 - 2.Departments must keep an up-to-date list of all employees who will have access to the third-party agency account.
- B. Written Procedures Required
 - 1.Departments that have custody of third-party funds must develop written procedures addressing documentation of expenditures, proper use of the funds, account reconciliation, separation/segregation of duties, other internal controls, etc.
 - 2.Departments must submit their written procedures for third-party funds for review to the applicable Chief Business Officer or designee and the University System Controller's Office. Departments must not accept custody of third-party funds until the applicable Chief Business Officer or designee and the Controller's Office have approved the department's procedures.

VI. Employee Liability

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- A. The University's employees who handle third-party funds as part of their official duties are covered under the State of Tennessee's blanket bond (insurance) policy only when the department has established an agency fund for the third-party funds.

SECTION 2. Reason for the Policy

To provide guidelines for University employees who handle third-party funds (funds that a non-University entity or individual owns).

SECTION 3. Scope and Application

This policy applies to all University employees.

SECTION 4. Procedures

The University does not have system-wide procedures for this policy. As stated in the policy, each department must establish written procedures for handling third-party funds.

SECTION 5. Definitions

N/A

SECTION 6. Penalties/Disciplinary Action for Non-Compliance

Employees who fail to comply with this policy may incur adverse human resources actions, up to and including termination. Further, employees who handle third-party funds in a manner inconsistent with this policy might be liable for civil or criminal penalties.

SECTION 7. Responsible Official & Additional Contacts

Responsible Official and Contacts may have responsibilities that include monitoring compliance

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Subject Matter	Office Name	Telephone Number	Email/Web Address
Policy Clarification and Interpretation			

SECTION 8. Policy History

Revision 2: May 15, 2018

SECTION 9. Related Policies/Guidance Documents

FI0120 – Records Management
