

Washington State Auditor's Office

Audit Report

Washington State University

Audit Period
July 1, 1997 through June 30, 1998

Report No. 6009

Issue Date
March 12, 1999



Washington _____
State Auditor
_____ Brian Sonntag

Audit Summary

Washington State University July 1, 1997 through June 30, 1998

ABOUT THE AUDIT

This report contains the results of our annual independent audit of Washington State University for the period July 1, 1997, through June 30, 1998.

Our work focused on determining whether the University complied with state laws and regulations and its own policies and procedures. We evaluated internal controls established by management. We also performed audit procedures on specific areas that have potential for abuse and misuse of public resources.

RESULTS

University officials have processes in place to provide reasonable assurance that the University's objectives are met. These internal controls are designed to achieve objectives in four categories: safeguarding of University assets, checking the accuracy and reliability of accounting data, promoting operational efficiency and encouraging adherence to applicable policies.

In general, the University's internal controls allow officials to effectively operate the University and safeguard its assets. The University's methods of accumulating and reporting financial data are reliable. In general, the University complied with state laws and regulations and its own policies. However, we identified two conditions significant enough to report as findings:

- Weaknesses in cash handling policies and controls create the potential for misappropriation of public funds. College deans, unit directors and area chief financial officers of the 580 cash receipting locations do not always ensure the policies and controls in their location reduce the potential for abuse and misuse of public funds. University management has been in the process of evaluating and strengthening these policies and controls for a number of years.
- Noncompliance with state regulations and University policies related to fixed assets creates a potential for misappropriation or misuse of public property. We noted one instance in which the personnel of one school could not locate 440 items of computer equipment and related assets. We also noted varying degrees of noncompliance in the other seven departments reviewed. University management has set up a task force to evaluate and improve policies and controls related to fixed assets.

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Description of the University

Washington State University July 1, 1997 through June 30, 1998

ABOUT THE UNIVERSITY

Founded in 1890, Washington State University is the state's Land-grant University with one of the largest residential campuses west of the Mississippi. The University has a main campus in Pullman and three branch campuses in Spokane, Tri-Cities and Vancouver. In addition, the Extended Degree Program and eight Learning Centers around the state provide access to credit and non-credit courses. The University offers more than 150 undergraduate majors, options and degree programs and more than 100 master's and doctoral degrees.

The University is governed by a nine-member Board of Regents, appointed by the Governor and confirmed by the state Senate. In June 1998, a student regent position was added, bringing the number of regents to 10. The University's biennial state operating budget for 1997-99 is \$343 million. Its state capital budget for the same period is \$129 million. The University employs approximately 5,000 faculty and staff members and enrolls more than 21,000 students.

Significant projects currently budgeted for construction include Vancouver Branch Campus Expansion (\$21.9 million), Bohler Gym Renovation (\$17.6 million), Thompson Hall Renovation (\$10.8 million) and the Kimbrough Hall addition and remodel (\$10.3 million).

APPOINTED OFFICIALS

Regents are appointed for six-year terms. An existing regent continues to serve until the Governor names a replacement or reappoints the regent.

Board of Regents:

President

Vice President

Carmen Otero

Peter J. Goldmark

Richard R. Albrecht

Kenneth Alhadeff

Phyllis J. Campbell

Richard A. Davis

Robert Fukai

Joe King

William Marler

Janelle Milodragovich

EXECUTIVE OFFICERS

President

Vice President for Administration

Provost and Academic Vice President

Vice President for Business Affairs

Vice President for Advancement

Vice President for Extended University

Affairs

Samuel H. Smith

Sally P. Savage

Gretchen M. Bataille

Samuel L. Kindred

Constance H. Kravas

Thomas L. Purce

ADDRESS

University

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Pullman, WA 99164
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Home page: www.wsu.edu

Audit Areas Examined

Washington State University July 1, 1997 through June 30, 1998

In keeping with general auditing practices, we do not examine every portion of the University's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the University were examined during this audit period:

LEGAL COMPLIANCE

While evaluating internal controls in selected University departments, we also audited each department's compliance with state laws and regulations and University policies. Areas tested in these departments were selected based on an analysis of the department's activities and our assessment of the highest risk of noncompliance, misappropriation or misuse. Areas included in department audits encompassed cash receipts, petty cash, purchasing, travel, leave reporting, equipment and payroll.

In addition, we audited the following areas for compliance with certain applicable state laws and regulations:

- Sufficiency of policies and procedures to monitor compliance with the terms of grants, agreements and contracts
- Compliance with state regulations for travel advances and expenditures
- Compliance with state regulations prohibiting the personal use of state resources
- Compliance with rules governing the existence and authorized amount of funds held in out of state bank accounts
- Review of University officials' compliance with disclosure and conflict of interest laws
- Compliance with rules governing the use of student and activity fees
- Sufficiency of policies governing the purchase and monitoring of investments
- Internet policy and monitoring program

INTERNAL CONTROL

University management has delegated responsibility for establishing and maintaining an adequate system of internal control to the dean and chief financial officer of each unit. Some units and areas tested were selected based on an analysis of the department's activities and our assessment of the highest risk of noncompliance, misappropriation or misuse. Other departments and areas of audit were selected on a rotating basis over the course of several years. This is in keeping with general auditing practices where we do not examine every portion of the University's financial activities during each audit. We evaluated internal controls in the following units and areas:

Billing and Cash Receipting:

- Vancouver branch campus
- Child Care Center
- Cougar Card system
- Veterinary Teaching Hospital
- Health and Wellness Services
- Telephone system

Payroll:

- Safety Services
- Child Care Center
- School of Electrical Engineering and Computer Science
- Vancouver branch campus
- Beasley Performing Arts Coliseum
- Holland Library
- Department of Kinesiology and Leisure Studies

Equipment:

- Institute of Biological Chemistry
- School of Electrical Engineering and Computer Science
- Department of Kinesiology and Leisure Studies
- Department of Geology
- College of Pharmacy
- Office of Grant and research Development
- Department of Horticulture and Landscape Architecture

Merchandise Inventory:

- Office of University Publications and Printing
- Veterinary Teaching Hospital

We also audited the University's internal controls over processing transaction and information through central departments, including:

- Accounts Payable
- University Receivables
- Payroll Services
- Sponsored Projects Finance Office
- Office of Business Affairs
- Office of Provost and Academic Vice President
- Office of Student Financial Aid
- Travel
- Cash Management and Accounting
- Property and Merchandise Inventory
- Purchasing Office
- Human Resource Services

FINANCIAL AREAS

In auditing the state's financial statements, we reviewed certain University account balances considered material to the state. Whenever possible, we reviewed and relied on work performed by other University auditors.

The results of the University's financial activities are reflected in the State of Washington's General Purpose Financial Statements. Those statements are audited separately and reported in the state's Comprehensive Annual Financial Report, issued each December by the Office of Financial Management.

In addition, we provided an independent auditor's report on the financial statements presented in the University's published financial report. This report is issued by the University on an annual basis. Note 13 of this report, discusses the University's year 2000 readiness. While we recognize WSU has made significant efforts to review, assess and reprogram the critical systems and application for year 2000 compliance, we did not specifically audit how the University is addressing year 2000 issues. Accordingly we do not provide assurance that the University is or will be year 2000 ready.

FEDERAL PROGRAMS

In accordance with the Single Audit Act Amendments of 1996, we annually audit major federal programs administered by the state of Washington. Rather than perform a single audit at each agency, we audit the state as a whole and publish the results in a separate statewide single audit report.

Although the University administers numerous federal programs, these programs were not audited this year as part of our statewide single audit.

While auditing selected University expenditure transactions for state legal compliance, if applicable, we also audited the transactions for compliance with federal regulations governing grants in the areas of spending grant funds for allowable purposes.

Audit Overview

Washington State University July 1, 1997 through June 30, 1998

AUDIT HISTORY

We audit Washington State University annually. Although the past five audits of the University have reported areas of concern, findings have decreased from a high of five in 1994 to a low of two in 1998.

In response to each of these reports, University management took steps to make improvements and correct conditions noted in the findings. The majority of the findings from 1994 to 1998 related to weakness in internal controls at the college, unit or department level. Over the years, the University has developed training classes, implemented task forces and improved University policies and procedures to address these concerns. We believe this reflects the University's desire and commitment to implementing and maintaining strong financial systems with sufficient internal controls.

CONCLUSIONS

In most areas, the University complied with state laws and regulations and its own policies and procedures. We did identify two conditions significant enough to report as findings. The conditions are discussed in the Schedule of Audit Findings sections of this report. In addition, we noted certain matters involving noncompliance not significant enough to report as findings that we have reported to the management of the University in a separate letter.

For the most part, we found University officials corrected or made progress toward correcting the deficiencies noted in the prior audit. However, two conditions related to controls over cash receipting and safeguarding of property remain unresolved. Strong controls will reduce the risk for potential misappropriation, misuse or abuse of public resources. We have repeated our prior audit findings and anticipate that University management will continue to make improvements to address our concerns.

Safeguarding assets was a major focus of our audit. We included the review of how various colleges, units and departments implemented internal controls related to cash receipting, payroll, property and merchandise inventory. During the current audit, University management strengthened policies and guidelines related to internal controls. These guidelines were formalized in the *Business Policies and Procedures Manual* in September of 1997. In addition, the importance of these guidelines was communicated in meetings to deans and administrative managers of all University colleges and administrative units. We believe this should increase awareness of the need for sufficient internal controls to reduce the potential for fraud and abuse.

We appreciate the University's attention to resolving prior audit issues and its commitment to establishing strong internal controls and ensuring compliance in a highly decentralized organization. We thank University management and personnel for their assistance and cooperation during the audit.

Schedule of Audit Findings

Washington State University July 1, 1997 through June 30, 1998

1. Weaknesses in cash handling policies and controls create the potential for misappropriation of public funds.

Description of Condition

Washington State University (WSU) has over 580 cash receipting locations. Each cash-handling unit is responsible for preparing initial source documentation to support receipts received at the unit. In addition, WSU has delegated the responsibility for implementing effective cash handling controls to unit management. The University's ability to centrally monitor the adequacy of established controls and compliance with state requirements and University policies is limited. College deans, unit directors and area chief financial officers need to ensure the policies and controls in their location reduce the potential for misappropriation of public funds.

During our current audit, we reviewed internal controls over receipting at the central cashier and various locations throughout the University. We noted the following areas of audit concern:

- Departmental employees with cash handling responsibilities are not always fully aware, or do not follow the procedures and controls outlined in the University's *Business Policies and Procedures Manual*.
- There is limited monitoring of employee turnover in positions with cash handling responsibilities and no required training for departmental employees with these duties.
- The central cashier performs only limited centralized monitoring or oversight to determine that departments are depositing funds timely in accordance with established procedures. During our review of October 1998 deposits, we noted money received and deposit reports prepared in August and September of 1998 that were not submitted to the central cashier until October 1998. In one instance, receipts from January 1998 were not submitted until October 1998.
- Official receipting documents many times do not contain complete information. We noted numerous instances of missing mode of payment, WSU receipt number sequence and authorizing signatures.
- The University does not have uniform policies regarding the processing of credit card payments and refunds. We generally find that access to the credit card machines is not always limited and refund transactions many times lack supporting documentation, review and approval.
- During our surprise cash counts, we noted receipts for the reimbursement of personal use of state resources. These resources include the use of University cellular telephones, copiers, shipping and delivery services and long distance service, etc. Any system of reimbursement must be established in advance and approved by the Executive Ethics Board to meet state regulations. There is no evidence to indicate the required establishment and approval of this reimbursement system.
- In response to our prior audit concerns related to segregation of receipting duties, prenumbering of source documents and accountability for prenumbered documents, the

University implemented new internal control procedures for cash receipting and depositing. These new control procedures were to begin September 1, 1998. A review of the 42 units who submitted deposits in the November 6, 1998, batch at the central cashier indicated that only 26 percent of those units were adhering to the new controls.

Cause of Condition

The University has developed a *Business Policies and Procedures Manual* to provide guidance in all significant areas of internal control and state compliance. WSU has also developed a cash handling training class, but this class is not mandatory for all employees in cash handling positions. Results of our audit testing indicate that while the manual and training provide sound guidance, adherence to the established policies is not a priority in all units.

Effect of Condition

Internal control weaknesses present individuals with the opportunity to perpetrate and conceal fraudulent activity without detection or allow inadvertent errors to occur and not be detected in a timely manner. Noncompliance with established controls increases the University's exposure to theft and misappropriation of funds.

Recommendations

We recommend:

- University officials enforce adherence to state regulations and University policies related to cash handling.
- WSU make cash handling training mandatory for all employees with cash receipting responsibilities.
- University officials develop and implement uniform controls related to credit card payments and refunds.
- WSU discontinue allowing employees to reimburse for personal use of state resources or obtain approval from the Executive Ethics Board as required.

University's Response

The report findings are symptomatic of problems that are being addressed on a University-wide basis. We are establishing a plan that will include mandatory training and the assignment of responsibilities at the supervisory level. Our goal is to establish a monitoring network that will identify employees new to the University, or new to a position, and ensure that the appropriate training will be scheduled, in a timely manner.

We are reviewing methods of incorporating training into the scope of supervisory responsibility both in the informational monitoring stages, perhaps tying it to our annual risk assessment procedures whereby supervisors are required to attest to the training level of employees. The University has a great number of employees and many training needs (payroll, cash handling, travel, purchasing, etc.), thus we recognize that our goal may be difficult and time-consuming to attain. We appreciate the assistance and suggestions that auditors have contributed to our effort.

The University will continue to improve procedures that enforce adherence to state regulations and University policies related to cash handling. WSU has instituted numerous new policies and procedures to that effect. The Controller's Cashier unit has implemented closer monitoring procedures to aid in identifying units that incorrectly complete deposit forms or that do not make

timely deposits. Material exceptions to cash handling procedures will be reviewed by the University Cash Manager and referred to the Internal Audit Officer for follow up.

WSU is developing procedures to identify all personnel in cash handling positions. Also included will be the capability to monitor new hires to cash handling positions and changes in personnel as well. The training will be mandatory.

Prior to the issuance of the report, new, University-wide procedures were established to require uniform processing of credit card payments and refunds. Included is the requirement for secondary (supervisor) approval of all credit card refunds.

The local audit team furnished WSU management the names of the four units in which they found receipts for the reimbursement of personal use of state resources. WSU is sending a University-wide notification to all departments informing personnel that the personal use of University/state resources by employees, to be later reimbursed, is an inappropriate activity.

Auditor's Remarks

We appreciate the University's response to our finding.

We compliment the University on the commitment to improve the internal controls over cash handling. We will review the areas discussed in the finding and the University's response in the next regularly scheduled audit.

Applicable Laws and Regulations

The State of Washington Office of Financial Management (OFM) *Policies, Regulations and Procedures* manual Section 6.1.1.1.5 provides the following basis requirements for internal control systems:

The agency director has the ultimate responsibility for establishing, maintaining and reviewing the system of internal control in the agency . . . Internal control systems include both internal accounting and administrative controls . . . Internal accounting controls encompass the plan of organization and all procedures and records that are designed to provide reasonable assurance that . . . Funds, property and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation . . . Administrative controls . . . ensure adherence to applicable laws, regulations, and policies

Schedule of Audit Findings

Washington State University July 1, 1997 through June 30, 1998

2. **Noncompliance with state regulations and University policies related to fixed assets creates a potential for misappropriation or misuse of public property.**

Description of Condition

Policies related to the property management system at Washington State University (WSU) require that certain equipment details be maintained in an inventory record on the mainframe computer. Inventoriable assets include:

- Items with an initial cost of \$5,000 or more with a life expectancy of more than one year.
- Items with a first cost of \$500 or more with a life expectancy of more than one year, if supported by grant funds.
- Items with a first cost of \$300 or more including photographic, computer, communications and office equipment.
- Any firearm or weapon regardless of cost.

Our review consisted of property inventories in six departments, a scan of all inventory files located in the Property Inventory Department and a judgmental selection of assets purchased during fiscal year 1998. Our review revealed noncompliance with state regulations and University policies and procedures. Specifically we noted:

- Nine University departments had not completed biennial physical inventories of all inventoriable assets as required by University policies and procedures. We noted evidence in the files that the Property Inventory Department and/or Controller's Office had attempted to ensure the departments completed the inventories and returned the information as required without cooperation by the departments. The nine departments out of compliance are:
 - Kinesiology
 - Graduate School – SESRC
 - News and Information
 - Physical Plant
 - Coop Extension – Jefferson
 - Coop Extension – Long Beach, REU
 - Coop Extension – Prosser
 - Coop Extension – Skamania
 - Coop Extension – Snohomish
- University departments did not always tag assets, or update inventory records appropriately. Out of 133 assets selected for verification, four did not have agency tags, 15 were found in incorrect locations and six could not be located and/or supporting disposal documentation could not be provided.

The School of Electrical Engineering/Computer Sciences (EE/CS) was noted during the prior audit as being out of compliance with University policies requiring biennial inventories. This Department had not completed a biennial inventory since 1989. As a result of our procedures during the current audit, we noted the following:

- EE/CS completed a fixed asset inventory in April 1998. At that time, 579 items of equipment could not be located. The director of EE/CS requested the inventory be reperformed. This second inventory was completed in late September of 1998.
- School personnel could not locate 440 items of computer equipment and related assets after this second inventory. Twenty-one of these items had been purchased since 1994. At our report date, the status of these missing assets had not been resolved. Even though many of these items were purchased more than 10 years ago and may be obsolete or otherwise unusable, the number of items that could not be accounted for represents a significant weakness in the implementation of property inventory controls at the school.
- EE/CS did not always dispose of assets according to University policies and procedures. School personnel indicated that 139 items were located or surplused between the April and September 1998 inventories. Nineteen of these items were selected to review disposal procedures. Five of the items were not supported by the appropriate disposal paperwork and/or Surplus Stores had no record of receiving the asset.
- The School did not update inventory records appropriately. An additional 19 assets were selected to determine if, in fact, items originally indicated as unaccounted for were found. Four of these items could not be located and five were found in incorrect locations.
- EE/CS has taken steps to improve its controls over fixed assets, including hiring a new Equipment Coordinator. The new Equipment Coordinator appears genuinely concerned about the weaknesses we noted and the equipment that could not be located. We commend the department on its efforts and encourage it to continue striving for improved controls over fixed assets.

The Physics Department was noted during the prior audit as out of compliance with University policies requiring biennial inventories. This department had not completed a biennial inventory since 1991. As a result of our follow-up during the current audit, we noted the following:

- The Physics Department completed a fixed asset inventory in September 1998.
- The Physics Department did not update inventory records appropriately or ensure inventoriable fixed assets were properly tagged. Of 12 assets selected for verification, four were located in incorrect locations, two could not be located and three had incorrect or unreadable serial numbers.

Cause of Condition

WSU has developed a *Business Policies and Procedures Manual* to provide guidance in areas of internal control and state compliance. The manual provides the basis for strong control systems over fixed assets and addresses all significant state requirements in this area. Results of our audit testing indicate that, while the manual provides sound guidance and central management attempted to gain compliance, adherence to the established policies is not a priority in the departments.

Effect of Condition

The University departments' failure to comply with state regulations and WSU policies related to fixed assets leaves the University vulnerable to undetected employee errors and theft or misuse of assets. Weaknesses in the controls to safeguard fixed assets at WSU were reported in the preceding audit report.

Recommendations

We recommend:

- Central management continue to implement procedures to ensure compliance with policies related to fixed asset controls and safeguards.
- University deans, chairs and administrators ensure the completion of physical inventories of all fixed assets in accordance with state regulations and University policies.
- University deans, chairs and administrators take appropriate action to ensure the accurate recording, update or removal of items from the University's inventory records.
- The unaccounted for assets in the Electrical Engineering/Computer Sciences Department be resolved to central management's satisfaction in order to provide a reasonable starting point for future inventory tracking.

University's Response

The University has formed a task force, which is reviewing the University-wide fixed assets system in its entirety. The committee will identify available inventory control systems, including requirements and time frames for implementation, estimated funding requirements and ideas for funding the system, and recommendations for revising the inventory control policies and procedures.

The University has resolved the EECS situation and established the base-line inventory for that unit.

One of the bullet items in this finding states that nine departments had not completed their biennial physical inventories. At the time of the audit, two of the reports had been returned, but they were misfiled so that information wasn't available to the auditors. This leaves just seven that had not been returned at the time of the audit. Of these, three were returned before the issuance of the final report, leaving just four outstanding. These four units have been instructed to return their inventory lists by February 25, 1999.

Auditor's Remarks

We appreciate the University's response to our finding. We will review the corrective action taken by the University in our next audit.

Applicable Laws and Regulations

The state of Washington Office of Financial Management (OFM) *Financial Administrative Policies, Regulations and Procedures* manual lists the following internal controls and requirements for fixed assets:

Section 3.1.2.2.1.1 states:

Agencies are to initiate and document an inventory program to ensure that every inventoriable fixed asset is subject to a physical count or verification every two years.

Section 3.2.2.1.2.b states:

A satisfactory fixed asset inventory system must include mechanisms and procedures for controlling the addition to and removal of assets from inventory as well as the safeguarding of those assets currently held.

Section 3.2.2.2.2.a states:

Agencies are to adopt internal policies and procedures regarding the timely removal of fixed assets from inventory

Section 3.1.2.2.2 states:

Immediately, upon receipt and acceptance, all inventoriable fixed assets of the state are to be marked in such a manner as to identify that the property belongs to the State of Washington and to the responsible agency.

WSU Business Policies and Procedures Manual, Section 20.50 – Property further defines the required controls specific to the University:

Property Inventory issues the department a computer listing of equipment. The department is responsible for returning the completed and signed listing within 45 days of the date the inventory request was received from Property Inventory. If this is not possible, contact Property Inventory and request a deadline extension.

The department chair (or equivalent administrator) is accountable and responsible for all equipment assigned to the unit . . . The department chair designates one or more individuals as equipment coordinators and notifies Property Inventory by memorandum . . . The equipment coordinator is responsible for placing tags on the equipment . . .

Department personnel complete and route an Inventory Control Report form to update unit inventory records . . . (or directly update records on the computer) . . . using the Update Location selection.

Items which are damaged, obsolete, or otherwise considered unnecessary or unusable may be disposed of by one of the following methods:

- Transfer the item to Surplus Stores . . .
- Sell the item to Surplus Stores or another University Department.
- Scrap the item for parts . . .

Note: Each disposed item must be accounted for by one of the three above methods.

Status of Prior Audit Findings

Washington State University July 1, 1997 through June 30, 1998

The status of findings contained in prior audit reports of the Washington State University is provided below:

Findings this audit: 2
Findings last audit: 4
Number of repeat findings: 2

- 1. Department noncompliance with established internal controls and University policies over decentralized cash operations creates a potential for misappropriation of public funds.**

Background

Washington State University has approximately 580 cash handling units. Our testing of the decentralized cash operations at 15 of these units revealed noncompliance with state regulations and University policies. We noted similar noncompliance issues in other units reviewed in the prior three audits. Various combinations of the items listed below occurred at all but three of the locations tested:

- Adequate segregation of duties or supervisory review did not always exist.
- Cash collections were not always supported by prenumbered source documents at the original collection point.
- Checks were not always restrictively endorsed upon receipt.
- Funds collected were not always deposited intact and in a timely manner.
- Receipts were not always properly safeguarded by the use of cash registers, safes or locks.
- Alternate receipt forms generally did not indicate the preparer or mode of payment and were not numerically controlled.

Status

We consider the issues for the locations tested during the prior audit significantly resolved. However, we did note weaknesses in other locations during procedures performed in the current audit. Our report contains a finding discussing cash receipting issues again this year. University management continues to evaluate and strengthen policies and controls in this area as they have for a number of years.

- 2. Department noncompliance with established internal controls and University policies related to payroll processing creates a potential for misappropriation of public funds.**

Background

The University has more than 175 decentralized payroll units. Each unit is responsible for preparing initial documentation to support payroll and to account for paid leave. Our review of eight payroll units revealed the following exceptions. We also noted similar conditions in other units tested in the prior three audits.

- Segregation of duties was not always adequate.
- Supervisory approval of time records did not always occur.
- Some departments did not ensure that documents related to paid leave were completed in a timely manner.
- Procedures were not in place to ensure sick leave records for faculty were complete and accurate.
- Written notification of temporary appointment status was not always provided to employees.
- Departments did not always adhere to University requirement for reporting and monitoring outside work and consulting.

Status

During fiscal year 1998, the University implemented payroll training classes. These classes have improved payroll processing procedures at the department level. During the current audit, we noted some instances where adherence to the established policies and controls was not a priority. However, these instances were not pervasive as in prior audits. The matters noted involving noncompliance were not significant enough to report as a finding and have been reported to management in a separate letter.

3. Noncompliance with state regulations and University policies related to fixed assets creates a potential for misappropriation or misuse of public property.

Background

State requirements and University policies related to property management require certain equipment details to be maintained in an inventory record. Review of property inventories in six University departments revealed noncompliance as follows:

- The Property Control Manager did not always ensure that departments conducted a physical inventory every two years as required.
- Department equipment coordinators did not always tag all inventoriable assets immediately upon receipt.
- University departments did not always update inventory records appropriately.

Status

Significant improvements were made related to central oversight by the Property Control Manager. However, we noted similar weaknesses during procedures performed in the current audit in the two departmental areas noted above. Our report contains a finding discussing similar issues again this year. University management continues to evaluate and strengthen policies and controls in this area.

4. Department noncompliance with federal regulations and University policies related to the administration of sponsored projects resulted in cost transfers and overdrafts of approved budgets.

Background

Our review of department procedures related to the monitoring and control of sponsored accounts revealed noncompliance with federal regulations and University policies. Although sufficient controls were established at the central administration level to monitor and control these projects,

cost transfers and overdraft accounts originated at the department level. The University did not ensure that deans, chairs, account administrators and principal investigators adequately implemented established policies and controls to reduce the potential for inappropriate costs being charged to sponsored projects.

Status

In November 1997, University management strengthened policies related to controls over sponsored projects. Responsibility for account overdrafts and cost transfers was specifically assigned to department chairs, principle investigators and account administrators. In addition, the importance of these guidelines was communicated in meetings to deans, administrative managers and vice provosts. We believe this increased awareness of the need for sufficient internal controls to reduce the potential for inappropriate costs being charged to sponsored projects. We consider this issue resolved.