



F L O R I D A
INTERNATIONAL
U N I V E R S I T Y

OFFICE OF
INTERNAL AUDIT

AUDIT OF ACCOUNT RECEIVABLES

July 1, 2007 through December 31, 2008

Report No. 08/09-08

July 22, 2009



Date: July 22, 2009
To: Albert Maury, Chair, and Members of the Finance and Audit Committee
From: Allen Vann, Audit Director 
Subject: **Audit of Accounts Receivable**

We conducted an audit of Accounts Receivable for the period from July 1, 2007 through December 31, 2008. Our audit objectives were to determine whether there were adequate controls and procedures in place to ensure that accounts receivables are properly recorded, related allowances for doubtful accounts are appropriately calculated and collection and write-off processes are adequately managed.

Our audit disclosed that considerably greater effort is needed by the University's departments responsible for managing receivables in the areas of collecting receivables, aging receivables, providing support for how allowances are calculated and when all collection efforts fail, swifter write offs of receivables. In addition, more detailed reconciliations need to take place on a more frequent basis and the entire process would benefit from more comprehensive written policies and procedures.

We wish to express our appreciation for the cooperation and assistance extended to us by the personnel from the Controller's Office, Office of Sponsored Research Administration (OSRA), and all the other departments involved in this audit.

This audit was conducted by Albert Mayungbe.

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OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of our audit was to determine whether there are adequate controls and procedures in place to ensure that accounts and notes receivables (receivables), are properly recorded, related allowances for doubtful accounts are appropriately calculated and collection and write-off processes are adequately managed.

Our audit included the University's receivables for the period July 1, 2007 through December 31, 2008. At calendar year end, FIU's unaudited gross receivable balance was \$97,324,959 net of an allowance for doubtful account of \$17,806,562.¹ Of this amount, \$45.2 million was for tuition and fees; \$14.9 million for Office of Sponsored Research Administration (OSRA); \$6.6 million for Housing and Residential Life (Housing); and \$1.9 million for Department of Parking and Transportation (Parking). The balance of \$28.7 million was for various departments within the University.

The audit included tests of the accounting records and such other auditing procedures as we considered necessary. We reviewed policies, observed and tested current practices and processing techniques, interviewed responsible personnel, and tested selected transactions. Sample sizes and transactions selected for testing were determined on a judgmental basis. Audit fieldwork was conducted between March 1, 2009 and April 30, 2009.

BACKGROUND

The University's receivable balance and the corresponding allowance for doubtful account have grown steadily between FY 2006 and FY 2008 as depicted in the following table:

Fiscal Year	Gross Receivable Balance	Allowance for Doubtful Accounts	Allowance Percentage
2005	48,750,302	10,038,092	21%
2006	34,297,486	9,363,092	27%
2007	37,711,450	13,580,299	36%
2008	40,947,693	14,833,207	36%

Since the end of FY 2008 (6/30/08), the allowance at calendar year-end (12/31/08) grew by another 20% to \$17.8 million. Student Financials informed us that the tuition and fees receivable was high because the University was closed from December 24, 2008 to January 4, 2009 with last day to pay January 2, 2009, which was after the audit period.

¹ This includes a notes receivable balance of \$1,466,356 and allowance for notes receivable of \$1,123,586.

The allowance for doubtful accounts represents the portion of the University's receivables that in the estimation of management may not be collectible. It has grown significantly and is high when compared to others in the Florida State University System. In fact, as depicted in the following table, FIU has the second highest allowance for doubtful accounts percentage in the State University System as of June 30, 2008:

Institution	Gross Receivable Balance	Allowance for Doubtful Account	Allowance Percentage
Florida Agricultural and Mechanical University	39,207,835	15,560,071	40%
Florida International University	40,947,693	14,833,207	36%
Florida Atlantic University	26,755,051	3,969,300	15%
University of West Florida	7,333,590	1,044,535	14%
University of South Florida	76,521,131	10,298,268	13%
Florida Gulf Coast University	4,337,209	517,388	12%
University of Florida	138,363,837	12,947,169	9%
Florida State University	35,773,788	2,811,910	8%
New College of Florida	398,858	17,481	4%
University of Central Florida	34,172,910	1,343,296	4%
University of North Florida	9,628,487	3,289	0%

Various University departments have responsibilities relating to managing receivables and their related allowances, including:

- Student Financials,
- Housing,
- Parking, and
- OSRA.

FINDINGS AND RECOMMENDATIONS

Based on our audit, we have concluded that considerably greater effort is needed by the University's departments responsible for managing receivables in the areas of collecting receivables, aging receivables, providing support for how allowances are calculated and when all efforts fail, swifter write offs of receivables. To this end, more detailed reconciliations need to take place frequently and comprehensive written policies and procedures need to be developed.

Details of our findings and recommendations follow.

1. Improvements Needed In Collection Efforts

Student Financials

With the exception of OSRA and Parking (citation only), the Student Financials group is responsible for all the university collection activities. The University Registrar classifies students into active and inactive status based on their registration record. Active students are students who have registered for a class within a twelve month period. Students who do not meet this requirement are classified as inactive. Student Financials contact active students about their account balance via email and message board communication that is displayed to students as they access their record on-line.

We were informed that students whose outstanding receivable is 1 to 20 days delinquent are prevented from receiving their transcripts or diplomas, while students that are more than twenty days delinquent are prevented from registering for class. However, during our review, we noted that a student who had outstanding receivable of \$1,191 from the summer of 2005 was allowed to register for the spring and summer semester of 2009. Personnel of Student Financials informed us that they lifted the registration hold for the student because the student made a partial payment and completed a promissory note.

Personnel of Student Financials informed us that they would lift the registration hold placed on a student record if partial payment/promissory note is made by the student but they have no documentation of this procedure.

Inactive students with outstanding receivables are not contacted directly by Student Financials, but rather the account of such students was in the past referred to a collection agency. However, we were informed that Student Financials is in the process of finalizing a contract with a collection agency. Delinquent accounts have not been referred to a collection agency since 2000. Student Financials personnel indicated that they were reluctant to contact inactive students due to the legal issues surrounding the active collection of consumer debt. In effect, the

last time inactive students were contacted about their outstanding receivables was over eight years ago. We reviewed the proposal Student Financials received from the prospective collection agency and noted that it was dated January 31, 2008 and were informed that the contract was signed June 24, 2008. Additionally, we were informed that Controller's Office did not take further action in collections during this time due to the departure of the Controller.

OSRA

OSRA also needs to improve how it manages collections of its receivables. Their accounts receivable balance as of December 31, 2008 was \$14.9 million. Our review of four delinquent accounts, totaling \$735,146 disclosed the following exceptions:

- The first documented collection effort for a \$76,989 invoice to Booz Allen Hamilton, Inc. dated September 12, 2005 occurred more than three years later on February 6, 2009, during the close-out process for the project. An email communication to FIU dated February 27, 2009 from Booz, Allen Hamilton, Inc. disclosed that they previously returned the invoice because it was billed for incurred costs (\$66,641) instead of the "Firm Fixed Price" (\$76,989).
- The Miami-Dade Transit Authority was not contacted about the status of an outstanding invoice for \$105,000 dated May 5, 2008 until October 14, 2008, more than five months later. This receivable remains outstanding and there is little evidence of current collection efforts.
- Florida Agricultural and Mechanical University was not contacted about the status of eleven unpaid invoices until November 18, 2008 after the contract had already ended on October 31, 2008. Our review disclosed that; one of the invoices for \$93,630 was dated November 27, 2006; three invoices, totaling \$45,028 were issued between March 29 and July 9, 2007; and six invoices totaling \$38,867 were issued between March 6 and August 23, 2008.
- The first documented communication with the United States National Park Service for twenty-one invoices, totaling \$375,632 issued between March 18 and October 30, 2008 occurred in March 6, 2009.

The examples cited above indicate that OSRA's collection effort needs improvement. When revenues from grants and research funded activities are not collected, they place an undue burden on cash flow and fund balances.

We previously performed an *Audit of OSRA'S Billings and Collections* (report No. 05/06-07, dated June 29, 2006). Our findings and recommendations, at that time, related to: (a) inability to consider all factors contained in grant agreements while calculating accounts receivable and deferred revenue; (b) invoice billings missing essential information, such as invoice date, the proper period covered by the invoice, and the correct invoice amount; (c) lack of reconciliation of receivable logs to PantherSoft General Ledger (GL); (d) Lack of central point of collection for payments; and (e) lack of documented policies or procedures for billings and collections.

We attributed many of the noted deficiencies to the lack of an automated system for processing billings and tracking collection effort. Management agreed to acquire an automated grant module for its billings and collection processes. The grant module is scheduled for implementation on July 13, 2009. Our review also disclosed that, OSRA has not developed policies or procedures for collection activities. To their credit, our review of OSRA deposit for December 2009 disclosed that the checks were either sent directly to OSRA or were forwarded to OSRA who prepared the deposit form and deposited the check at Student Financials.

Parking

FIU is doing better at managing parking receivables. In March of 2008, the State Auditor General reported (audit report No. 2008-120) that controls over parking citation receivables needed improvement. According to their audit report, the citation receivables recorded in Parking subsidiary ledger were not reconciled to the University GL; relevant information, such as name and address necessary for collection were not always available; and academic holds were not always placed on the records of students for nonpayment of citation and parking obligations.

Our current review disclosed that the Controller's Office performed a reconciliation of the aging receivable report provided by Parking to the University GL for December 31, 2008. We also noted that Parking forwards detailed information about citations issued to the Controller's Office every quarter. We judgmentally selected 21 citations issued in 2008 and noted that: (a) Parking personnel had pertinent information about the vehicle owner, such as name and address; (b) the recipient of the citations were sent collection letters; (c) delinquent citation were referred to a collection agency after 365 days if linked to a Panther ID and sooner, 120 days, if the citation cannot be linked to a Panther ID; and (d) effective November 2008, Parking started placing registration holds in addition to diploma/transcript holds on active students who are delinquent in paying for citations. The results of our review indicated that Parking has complied with the State Auditor General's recommendations.

Recommendations

The Controller's Office should:	
1.1	Establish procedure for promptly collecting outstanding receivables, especially from inactive students.
1.2	Establish a written guideline for lifting registration hold placed on the account of students who are delinquent in paying off their receivables.
OSRA should:	
1.3	Establish a procedure for monitoring and promptly contacting clients for outstanding receivables.

Management Response/Action Plan:

Responsible Department: Controller's Office

- 1.1 We agree with the Internal Audit recommendation. The contract with the collections agency has expired and the renewal has been sent to the General Counsel's office. Once the contract has been renewed, Student Financials will commence using the services of the collections agency.
Estimated completion date: January 31, 2010
- 1.2 We agree with the Internal Audit recommendation.
Estimated completion date: September 30, 2009

Responsible Department: OSRA

- 1.3 The PeopleSoft Billing and Accounts Receivable module was implemented on July 13, 2009. The business process for accounts receivable includes automated dunning letters and reports that provide the information necessary to effectively manage grant receivables. Procedures for monitoring receivable balances will be incorporated into the invoice procedures and submitted to the Compliance Office to be included on the Policies and Procedures web site.

Please note that, in the examples of outstanding accounts receivable provided above, Booz Allen Hamilton and Miami-Dade Transit Authority contracts were paid in full. The Research Office continues to follow up on the Florida A&M University receivable and the U. S. National Park Service. The Research Office is in constant contact with the U. S. National Park Service regarding the outstanding receivable but this sponsor is always slow to pay.
Estimated completion date: October 1, 2009

2. Need for More Comprehensive Aging of Receivables Reports

The receivable collection efforts would benefit from a more comprehensive aging of receivables report in the hands of staff assigned to manage accounts receivable.

According to the Controller's Office, the University had receivable balances of \$8.4 million over one year delinquent and another \$2.2 million that was more than two years delinquent as of the year ended December 31, 2008. The Controller's Office indicated that they perform reviews by department rather than by individual student. They use an accounts receivable aging report by department for performing analysis for the purpose of the calculation of the allowance for doubtful account. However, the aging report by department is not particularly useful for analyzing and monitoring students' account for delinquency.

Neither Student Financials nor the Controller's Office was able to provide either an aging receivables report or detailed accounts receivable balances by student for December 31, 2008 as the system does not save the historical receivable balances as of a specific date.

The lack of a readily available aging receivables report is further evidence that individual outstanding accounts receivable balances are not regularly reviewed for delinquency/collection. Although Student Financials regularly contact and place registration hold on the account of delinquent active students, Student Financials had no procedure for reviewing and/or monitoring the accounts of inactive students. In order to ensure that the accounts receivable balance is accurate and outstanding receivables are properly monitored and collected, detailed accounts receivable aging reports should be reviewed regularly.

Recommendations

The Controller's Office should:	
2.1	Develop a process to save historical detailed aging reports for all outstanding receivables.
2.2	Upon completion of the process, improve the procedure for reviewing the report in order to enhance collections.

Management Response/Action Plan:

Responsible Department: Controller's Office

- 2.1 We agree with the Internal Audit recommendation. PeopleSoft does not have the delivered functionality to save detailed historical aging reports. A review of the potential system modifications will be conducted to determine the optimal solution.
Estimated completion date: January 31, 2010
- 2.2 We agree with the Internal Audit recommendation.
Estimated completion date: January 31, 2010

3. Comprehensive Procedures Supporting Allowance for Doubtful Accounts Needed

Except for OSRA's related receivable, the Controller's Office regularly analyzes accounts receivable from all departments and adjusts the allowance accounts quarterly. Our review disclosed that the Controller's Office had a comprehensive step by step narrative of the procedure used to compute the allowance for doubtful account they are responsible for. We also noted that the narrative was adhered to in computing the allowance for the year ended December 31, 2008.

On a monthly basis, OSRA analyzes its receivables and forwards adjustments to the allowance account to the Controller's Office. For the year ended December 31, 2008, OSRA had an accounts receivable allowance of over \$3 million. However, the procedures they used to calculate these amounts were not clear. We reviewed their step by step narrative of how they extract and analyze the data used to calculate the allowance, and noted that it did not contain the critical criteria or rationale use to age the receivable or the percentage used in the calculation. To their credit, the same percentage was used in December 2007 and 2008, but in order to ensure internal control, the entire process used to calculate the accounts receivable allowance should be properly documented and adequately supported.

Within the Controller's Office, the Student Financials group computes allowances for Uncollectable Loan(s) and Uncollectable Interest on Loan Receivable(s), which comprised mainly of Federal Perkins Loans. As of the year ended December 31, 2008, the balances were \$820,131 and \$303,455, respectively. As with OSRA, the Student Financials group was unable to provide us with written procedures documenting the process they used to derive the allowance amounts calculated for both accounts.

Recommendations

3.1	OSRA should develop written procedures for calculating and documenting the allowance for doubtful accounts for Research, and consult with the Controller's Office to ensure the calculations developed are acceptable for financial statement purposes.
3.2	The Controller's Office should develop written procedures for calculating and documenting the allowance for doubtful accounts for Perkins Loans.

Management Response/Action Plan:

Responsible Department: OSRA

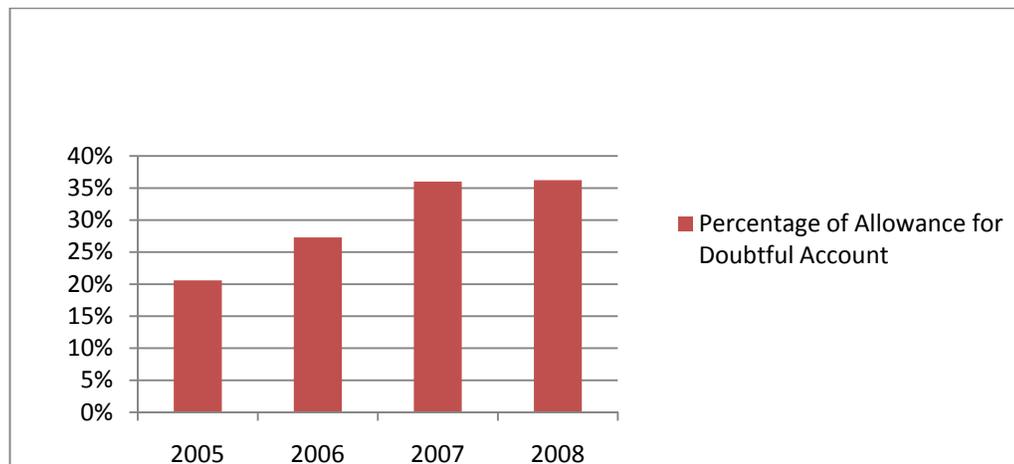
- 3.1 The PeopleSoft Billing and Accounts Receivable module will provide an accurate receivable with the necessary documentation to support the allowance for doubtful accounts. The calculation of the allowance for doubtful accounts will be completed by October 15, 2009.
Estimated completion date: October 15, 2009

Responsible Department: Controller's Office

- 3.2 We agree with the Internal Audit recommendation.
Estimated completion date: September 30, 2009

4. Infrequent Accounts Receivable Write-Offs

The growth in allowance for doubtful accounts (see table below) and its relative size compared to others in the Florida State University System (see Background section, pages 1 and 2) may be attributed to the infrequent identification and write off of uncollectible accounts.



During the period, the dollar value of the University's accounts receivable decreased by 16 percent; whereas, the allowance for doubtful account was allowed to increase by 48 percent.

Our audit disclosed that the accounts receivable are neither reviewed for collectability nor written off when accounts are deemed to be uncollectable; rather they increased the allowance for doubtful account. When all efforts to collect an accounts receivable has been exhausted, such accounts should be identified and promptly written-off.

In the past, when the Controller's Office determined that accounts were no longer collectable, they forwarded a resolution to the FIU Board of Trustee (BOT) for their approval to write them off. The Controller's Office may only write off the account after the resolution has been approved by the BOT. The last write-off of uncollectable accounts receivable occurred in 2006 for \$625,836. The write-off included uncollectable accounts for fiscal year 1981 through 2000. Therefore, the University's current outstanding receivable contained some accounts that are as much as nine years old. When accounts receivables are allowed to get that old, the likelihood of collection becomes increasingly remote.

Recommendation

4.	On an annual basis, the Controller's Office, in consultation with other departments, should identify uncollectible accounts and write them off (with BOT approval).
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Management Response/Action Plan:

Responsible Department: Controller's Office

We agree with the Internal Audit recommendation.

Estimated completion date: September 30, 2010

5. Need for More Thorough and Frequent Account Receivable Reconciliations

According to the Controller's Office, at fiscal year-end a reconciliation of student account balances by department and by student to the GL balances are made. As previously discussed this does not include a review of the accounts receivable aging report or review of the detailed of the students' account balance. Consequently, in the absence of detective controls, errors and omissions in the accounts receivable detail may go undetected. In addition, because this reconciliation is done annually, fraudulent activities, if they occur, may not be detected in a timely manner.

Student Financials uses the PantherSoft Student Administration (SA) system to process revenue and related receivables.² Data from SA is transmitted daily to the GL. Subsequently, the Controller's Office performs a comparison of data reported in SA, by department, to information contained in the GL. We noted adjustments of \$6,952,318 were recorded to transfer misclassified accounts receivable transactions that were recorded to the "other receivable account" in SA to various tuition receivable accounts in the GL. We were informed that tuition receivables were posted to the "other receivables account" because the item type set-up was incorrectly established during conversion in SA.

Our review disclosed that except for OSRA, departments do not reconcile the subsidiary ledger to the GL. Sound internal control requires reconciliation of accounts receivable to the GL be performed in a timely manner. We do not believe the annual reconciliation of the student account balance, which does not include review of detailed account balance, to the GL is timely or detailed enough to ensure adequate internal control over the University accounts receivable.

² Housing uses the Residential Management System to process students' transactions, including accounts receivable. This information is transmitted electronically on a daily basis to Student Financials. All Parking receivables are processed directly with SA, except for citation related transactions, which are processed using the Power Park Flex system. Citation data is transmitted quarterly to the Controller's Office and then recorded manually into the University's GL. OSRA uses a manual system to maintain its receivables and forwards the information to the Controller's Office monthly and is also then recorded manually.

Recommendations

The Controller's Office should:	
5.1	Establish a procedure for reconciling departments' subsidiary ledger and detailed accounts receivable by students to the GL.
5.2	Consider more frequent reconciliation of the accounts receivable subsidiary ledger to the GL.
5.3	Review the item type set-up to ensure that they are mapping correctly to the GL.

Management Comment/Action Plan:

Responsible Department: Controller's Office

- 5.1 We agree with the Internal Audit recommendation. The detailed accounts receivable by students report in the Student Financials system will be modified to provide totals by department in order to facilitate the reconciliation with the General Ledger.
Estimated completion date: March 31, 2010
- 5.2 We agree with the Internal Audit recommendation.
Estimated completion date: March 30, 2010
- 5.3 We agree with the Internal Audit recommendation.
Estimated completion date: March 30, 2010

6. Need for Comprehensive Policies and Procedures

Since the University accounts receivable process is decentralized, each department should have detailed policies and/or procedures to formulate their practices and ensure consistent treatment of transactions. Policies and procedures also serve as a valuable training tool and roadmap for employees.

The Controller's Office does not have comprehensive accounts receivable policies and/or procedures. The documentation provided regarding how they calculate and record accounts receivable transactions does not cover all aspects of the accounts receivable cycle. Furthermore, the documentation is specific to the operations of the Controller's Office and isn't very useful to the other departments managing accounts receivable transactions. Although our review of OSRA's deposits did not disclose any unrecorded receivable, the Controller's Office should regularly review departments' transactions for unrecorded receivables.

Likewise, OSRA, Housing, and Parking, the three departments with the highest accounts receivable balance, either did not have policies and/or procedures or have procedures that do not cover all aspects of their accounts receivable and collection activities.

Recommendation

6.	The Controller's Office should develop comprehensive policies and procedures for all areas of the University responsible for managing accounts receivable and collection, including the calculation of allowances for doubtful accounts.
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Management Comment/Action Plan:

Responsible Department: Controller's Office

We agree with the Internal Audit recommendation.
Estimated completion date: March 31, 2010