FLORIDA INTERNATIONAL UNIVERSITY

Office of Internal Audit

AUDIT OF CONTROLS OVER UNIVERSITY CASH AND INVESTMENT ACCOUNTS

Report No. 11/12-04

December 15, 2011

FLORIDA INTERNATIONAL UNIVERSITY

OFFICE OF INTERNAL AUDIT

Date: December 15, 2011

To: Kenneth A. Jessell, Chief Financial Officer & Senior Vice President

From: Allen Vann, Audit Director Allen Vann

Subject: **Audit of Controls over University Cash and Investment Accounts Report No. 11/12-04**

We have completed an audit of the controls over University cash and investment accounts. The primary objective of our audit was to assess the disbursement controls over University cash and investment accounts to determine whether the approval process and related controls were adequate and in accordance with University policies and procedures, Florida statutes, and guidelines as approved by the University Board of Trustees.

Overall, our audit disclosed that the University's disbursement approval process and related controls were satisfactory and in accordance with University policies and procedures, Florida statutes, and guidelines as approved by the University Board of Trustees.

The audit resulted in six recommendations, which management agreed to implement.

We wish to express our appreciation for the cooperation and courtesies extended to us by the Office of the Controller while conducting the audit.

C: Sukrit Agrawal, Chair, Board of Trustees & Finance and Audit Committee Members
Mark B. Rosenberg, University President
Javier I. Marques, Chief of Staff, Office of the President
Andres Gil, Vice President for Research & Chair of the Research Foundation Board
Cecilia Hamilton, Associate Vice President & Controller

TABLE OF CONTENTS

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our audit was to assess the disbursement controls over University cash and investment accounts to determine whether the approval process and related controls were adequate and in accordance with University policies and procedures, Florida statutes, and guidelines as approved by the University Board of Trustees.

The audit included the University's cash and investment accounts and examined wire transfers, ACH debits,[1] EFTs,[2] and checks executed during the period from July 1, 2010 to June 30, 2011. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. Audit fieldwork was conducted from May 5, 2011 to October 28, 2011.

The audit included tests of the accounting records and such other auditing procedures as we considered necessary. We reviewed University policies and procedures, Florida statutes, observed current practices and processing techniques, interviewed responsible personnel, obtained confirmations, and tested selected transactions. Sample sizes and transactions selected for testing were determined on a judgmental basis.

As part of our audit, we reviewed internal and external audit reports issued within the last three years to determine whether there were any prior recommendations related to the scope and objectives of this audit and whether management had effectively addressed prior audit concerns. No prior recommendations were noted related to University disbursement controls over cash and investment accounts.

BACKGROUND

As of June 30, 2011 (unaudited), the University had cash and cash equivalents of $9,152,406 and total investments of $280,302,582, with operating expenditures for the year of $695,655,521. Cash and cash equivalents consist of cash on hand and cash in demand accounts. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment in public funds by local governments.

---

[1] ACH refers to Automated Clearing House, an electronic network for financial transactions in the United States. ACH processes large volumes of credit and debit transactions in batches. At the University ACH debit transfers are primarily used to pay employee travel expenditures.

[2] EFTs are electronic exchanges or transfers of money from one account to another, either within a single financial institution or across multiple institutions, through computer-based systems. The University uses EFTs primarily to pay vendors.

Florida Statute Section 1011.42(6) authorizes FIU's Board of Trustees (BOT) to approve specific University employees who are authorized to sign checks and pay legal obligations on behalf of the University, as well as to transfer funds and open and close bank accounts. During our audit period, the BOT on June 4, 2010 authorized the Chief Financial Officer (CFO) and the then Interim and Deputy Controller, as well as an Associate and an Assistant Controller to sign checks to pay FIU's legal obligations. On December 9, 2010, following the hiring of the University Controller on October 1, 2010, the BOT designated the CFO and the University Controller to sign checks to pay legal obligations of the University.

Although the signature authority is delegated to very specific employees, these individuals do not physically sign checks or documents or approve payments in any form or manner. These individuals rely on internal controls surrounding the disbursements cycle. Currently, all University checks are signed via a disk containing the authorized individuals' signatures, loaded onto a special reader connected to the check printer. Employees within the Office of the Controller approve payments resulting in the check issuance. Likewise, ACH debits and EFTs are approved by employees within the Controller's area. The wire transfer of funds is executed with written approval from authorized signers or via online access to institutions by individuals with access in the Controller's Office.

The BOT has also designated that the University President and his designees, the Treasurer and CFO, to transfer funds from one depository to another, within a depository, to another institution, or from another institution to a depository for investment purposes and to open and close bank accounts.

During the audit period the University maintained 14 accounts at seven different banking institutions, as well as a Special Purpose Investment Account (SPIA) with the State of Florida Treasury Department.

At the Bank of America (BOA), the University maintains 8 accounts, primarily for day-to-day operations. These 8 accounts include:

- A concentration account, where all of the University's incoming revenue is deposited and where IRS tax payments and international wire transfers are made from.
    - This account is linked to three zero-balance accounts, which are used as follows:
        - For accounts payable and travel disbursements, as well as P-card payments;
        - For Student Financials disbursements; and
        - As a merchant account. The merchant account is used to collect all debit/credit card sales for the University. No checks are issued from the concentration or merchant accounts.

- A payroll account. Every pay period an approximate amount is transferred into the payroll account for ADP and other third-party vendors relating to benefits to withdraw and disburse as needed.

- Two Self-Insured Program (SIP) accounts for the medical school. Activity in these accounts would only be seen if a claim were to be brought against the College of Medicine. One account is the SIP operating account that is reconciled by the University, but if claims were actually brought against the University, it would be managed by the University of Florida. The other SIP account is the capital account. Neither account had any activity during the audit period.

- The final account is a Federal and State student financial aid account. This account is used as a clearing house for the incoming and outgoing of such funds.

In addition, there is an account at a separate bank maintained for Federal Perkins Loan collections. This account handles all National Direct Student Loan (NDSL)/nursing collections by ACS, a billing service for the Federal Perkins Loan. No checks are issued from this account.

The BOT also authorized accounts in four foreign countries (Georgia, the Republic of Rwanda, Burkina Faso, and the Republic of Mali) but only the account in Georgia was open at the time of the audit. These accounts are used to administer grant projects in those countries. The FIU Research Foundation (Research Foundation) also authorized an account in the United Republic of Tanzania, and such transactions are maintained in the Research Foundation's books and records and were part of this audit. We did not receive a response from the bank in Tanzania to our confirmation request for authorized signers.

Investments, aside from the SPIA account (see below), are being held and managed in three financial services institutions. Two money market investment accounts are held at two different institutions. The third account, which is maintained at another institution, serves as the master custodian for nine of the University's investment accounts. The custodial bank manages all the investment managers and provides monthly statements to the University.

Finally, the Florida State Treasury operates an investment program called SPIA, which was established for public entities. SPIA funds are combined with State funds and invested in six fixed-income components, which typically return longer-term yields compared to a typical money market fund. Monies liquidated from SPIA can only be wired to FIU's bank account of record, the BOA Concentration Account. Participants have the ability to invest and obtain funds the same day as long as the deadline for notifying the Treasury is met. An investment in SPIA is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

FINDINGS AND RECOMMENDATIONS

Based on our audit, we have concluded that the University's cash and investment accounts approval process and related controls were satisfactory and in accordance with University policies and procedures, Florida statutes, and guidelines as approved by the University Board of Trustees. However, there were some areas where controls could be strengthened.

Our overall evaluation of internal controls for University's cash and investment accounts is summarized in the table below.

INTERNAL CONTROLS RATING FOR FINANCIAL CONTROLS			
CRITERIA	**SATISFACTORY**	**FAIR**	**INADEQUATE**
Process Controls	✓		
Policy & Procedures Compliance	✓		
Effect	✓		
External Risk	✓		

INTERNAL CONTROLS LEGEND			
CRITERIA	**SATISFACTORY**	**FAIR**	**INADEQUATE**
Process Controls	Effective	Opportunities exist to improve effectiveness	Do not exist or are not reliable
Policy & Procedures Compliance	Non-compliance issues are minor	Non-compliance Issues may be systemic	Non-compliance issues are pervasive, significant, or have severe consequences
Effect	Not likely to impact operations or program outcomes	Impact on outcomes contained	Negative impact on outcomes
External Risk	None or low	Potential for damage	Severe risk of damage

Details of our findings and recommendations follow.

1. Authorized Signers Not Updated

Banking records regarding authorized signers must be updated whenever there is a change to authorized signers. Two bank accounts had five personnel listed as authorized signers even though those employees had left those authorized positions between 2006 and 2010. These accounts were not updated until January and May 2011, respectively. However, for both accounts there was little to no risk that funds could be disbursed by unauthorized employees. This low risk was primarily due to one account only allowing transfers to and from the bank of record and the other account not issuing checks.

We also found that although the BOT has not designated the University President and Treasurer to have signature authority on any BOA account, and such was footnoted on the Bank's own Incumbency Certificate, BOA personnel informed us that that they do not recognize such footnote, and that the University's President and Treasurer's currently have signature authority.

Recommendation

The University Treasurer should:	
1.1	Ensure that all accounts are updated when there are changes in authorized signers and that the BOA accounts properly reflect the intention of the University's Board of Trustees as to authorized signers.

Management Response/Action Plan:

1.1 The Office of the Treasurer will maintain and regularly review a list of the authorized signers as approved by the BOT. Further, Office of the Treasurer will regularly review that the list of authorized signers is consistent with the authorities assigned and/or recognized by its banking partners. Any changes in personnel, with respect to authorized signers, will be immediately reviewed and followed with appropriate action, including removal of all authorities with the banking partners.

Implementation date: Immediately

2. Insufficient Employee Background Checks

University Policy No. 1710.257, *Pre-employment Requirements*, requires the performance of criminal history checks on all newly hired employees. The policy also requires more in-depth criminal history checks including fingerprinting, through the Florida Department of Law Enforcement for new employees (or employees recently promoted) in sensitive positions. Included in this category of employees are individuals handling cash or managing cash transactions and all financial services positions.

Upon review of personnel files for eight financial services employees in the Controller's Office who we considered to be in sensitive positions, none had been fingerprinted. Also, a criminal history background check was performed on only one employee tested.

We then examined four of these eight job position descriptions and found that none included a background check or fingerprinting as a pre-employment requirement. Human Resources personnel explained that since many of these employees had been hired prior to the implementation of the Policy, it was not applicable to them. However, the University has had a fingerprinting policy dating back to 1990 and security background check policy dating back to 1992, and in addition, some of these employees although originally hired prior to the implementation of the latest Policy, were either promoted into their current positions or have had position changes subsequent to its implementation. Human Resources personnel explained that since only the department knows exactly what the incumbent will be responsible for and what exposure they will have to sensitive information/data and/or processes, if the department does not inform them of what the role entails in a comprehensive manner, then Human Resources cannot enter the appropriate background requirement for hire.

Recommendation

The Controller's Office should:	
2.1	Work with Human Resources to ensure that criminal background checks, including fingerprinting are conducted for all sensitive positions.

Management Response/Action Plan:

2.1 Effective January 2012, the Division of Human Resources will conduct background checks, which may include finger printing and credit checks, on all employees working in security sensitive positions throughout the university. This review process will be conducted on a biennial basis in order to help ensure compliance with University policies and procedures.

Implementation date: January 2012

3. Discrepancy in Room Access/Key Control Records

The Disbursement Office is responsible for issuing payments once vouchers are approved for payment. Actual checks and EFT advices are printed and mailed out to vendors from this office. Blank check forms are stored in a storage closet. Both rooms must remain locked at all times to mitigate any risk of theft. The Key Control Office in Facilities Management is accountable for maintaining records of and ensuring specific access is activated based on proper authorization by the requesting department and deactivated upon employee separation or change in assignment.

We reviewed access to these secure areas and found a discrepancy between actual key distribution and Key Control's records. Per Key Control's records four keys were distributed for the Disbursement Office and two keys were distributed for the storage closet. All four keys to the Disbursement Office were accounted for; however, one individual who currently has custody of the key is not listed as having been provided a key by Key Control. That key is still on record with Key Control as being in another employee's possession. Since none of the two employees has their receipt from Key Control and Key Control has no such records, it would appear that the keys were informally exchanged.

We were also unable to account for one key corresponding to the storage closet. According to the employee with custody per Key Control's records, it was returned when she changed positions four years ago. We were unable to confirm that the employee returned the key as Key Control has no records of it being returned and the employee was unable to provide a receipt of it being returned.

Recommendation

The Controller's Office should:	
3.1	Work with the Key Control to ensure records properly reflect who has possession of keys to the Disbursement Office.
3.2	Account for the missing storage closet key or otherwise have the door re-keyed.

Management Response/Action Plan:

3.1 Since Key Control records and actual key distribution could not be agreed, the door has been re-keyed.

Implementation date: Immediately

3.2 The door to the storage closet has also been re-keyed. Management would like to point out, however, that no high risk material is kept in this closet. It merely holds the blank forms on which checks are printed. The forms are not check stock, in that they do not carry imprinted bank account or routing numbers. Banking information is only printed on the blank paper during the process of printing each check.

Implementation date: Immediately

4. No Back-up for Employees who Perform Bank Reconciliations

Employees responsible for preparing monthly bank reconciliations had no alternates in the event that they were absent for an extended period of time. Alternate employees have been identified to perform the day-to-day operations but they do not perform the month-end bank reconciliations when the primary employee is absent. Cross-training and rotation of employee job assignments provides back-up help when the primary jobholder is unavailable and strengthens internal controls.

Recommendation

The Controller's Office should:	
4.1	Designate alternate employees who have been cross-trained to prepare the monthly bank reconciliations.

Management Response/Action Plan:

4.1 Currently, responsibility for reconciling the ten principal bank accounts is distributed amongst six staff members. The controller's office has been working on cross training staff for some time and has set specific timelines for completion. To date, three employees have been cross trained in the reconciliation processes and three remain to be "brought up to speed". Cross training for the reconciliation of all bank accounts will be completed before June 30, 2012.

Implementation date: June 30, 2012

5. Inadequate Procedures for Tanzania Banking Account

As noted in the Background section, the Research Foundation authorized an account in the United Republic of Tanzania to administer a grant project in that country. The account carries an average monthly balance of $12,000 with average monthly expenditures of $14,600. During our audit, we were unable to obtain a confirmation response from the bank in Tanzania. However, our review of the procedures over the bank account found the following controls requiring strengthening:

- Bank reconciliations should be performed at reasonable frequent intervals in order to identify and investigate any differences. Our review of two different months of reconciliations found that they were performed three and seven months after month-end, respectively. We understand that documents are sent via mail to the University and must be reviewed by the Division of Research and Global Water for Sustainability Program (GLOWS) before being sent to the Controller's Office. We believe that a reasonable time should be set and adhered to when providing the needed supporting documentation to the Controller's Office to prepare the reconciliations in a timely manner.

- The corporate resolution authorizing the bank account requires two signatures on all checks and transfers, and on amounts in excess of the equivalent of approximately $1,275, from one of two specified individuals. During our review, we found four checks, totaling $7,430, signed by one authorized signer.

Recommendation

The Controller's Office should:	
5.1	Work with the Division of Research and GLOWS to establish a reasonable period of time for preparing reconciliations.
The Division of Research should:	
5.2	Ensure that all checks disbursed from the account in Tanzania have two signatures.

Management Response/Action Plan:

5.1 Management agrees that seven months is not a reasonable period of time for preparing reconciliations. It should be noted that documents were initially provided reasonably timely, however there were gaps and inconsistencies in the information that took several additional months to completely resolve. Because of this experience, the Controller's Office worked with the Division of Research and GLOWS from March through May 2011 to create a checklist specifying not only the required documents and information, but also the responsibilities of each of the parties in the process. With the use of this checklist, the average reconciliation period is now 2 to 3 months.

This time delay for reconciling cash certainly adds to the risk of the enterprise. Management believes, however, that this risk level is inherent in the logistics of conducting operations in remote areas in inadequately equipped countries with limited communication resources.

Implementation date: Immediately

5.2 When the bank accounts were originally established only one signatory was located in the country and therefore all checks issued during this time frame carried only one signature. The Research Foundation identified the problem, which resulted in a series of meetings to document the review process in each office (in Country, Department, DOR, Controller's, Foundation). The Division of Research insisted that the second signatory needed to be identified and this has occurred. All future checks will have two signatures as required.

Implementation date: Immediately