

## **Synopsis of Internal Audit Report Findings #1**

### **Financial Reporting**

Finding: Detailed, timely financial reports are not consistently provided to responsible persons, including Principal Investigators. Consequently, the responsible person does not have the opportunity to review the appropriateness of the financial activity recorded in FRS, the University's official accounting system. As a result, the auditor found amounts inappropriately charged to University accounts (s/b University Foundation), personal expenses and unallowable purchases.

Recommendation: Provide detailed monthly financial reports (FBM090 & FBM091) to responsible persons to enable them to effectively manage financial resources and to monitor for appropriate use of funds and errors in need of correction. Also, the responsible person should be provided with bi-weekly Payroll Expenditure Listings (PEL) to identify any erroneous personal services charged to their accounts.

Learning Points: On a monthly basis, the responsible person for each account should perform a careful review of the FBM 090/091 report for transactional activity and account balances. If shadow bookkeeping reports are provided, they should be reconciled to the FRS account balance and any differences explained in detail.

### **Payroll-related Risks**

Finding: Timekeeping records were not always prepared in accordance with University policies and signed by the employee and supervisor to show agreement with the reported hours, e.g., appointed personnel and graduate students did not prepare timesheets. In addition, a non-exempt employee has not been compensated for 49.5 extra hours worked, a liability to the College/Dept.

Recommendations: Department managers, supervisors and the payroll representative should be retrained regarding University timekeeping policies. Periodically, College/Dept. administration should monitor to ensure that University timekeeping policies are followed.

Learning Points: FRS policy requires that employee time records be prepared for all employees. If the Payroll representative is experiencing difficulty in obtaining the signed documents timely, department management must assist in mandating this procedure. As indicated, training or retraining sessions presented by the Financial Services Office should be scheduled to assist in complying with policy for this critical document. The Time & Attendance On-Line Tutorial found on the FSO website can also be valuable as a training tool.

### **Payroll Over- and Under-payments**

Finding: An analysis of university employees hired or rehired between 7/1/06 and 12/17/06 which encompassed a sample of 41% of the

transactions yielded three errors. In each instance, the error occurred with the employee's first paycheck.

Recommendation: None

Learning Points: Because of the higher risk that the first paycheck a new employee receives might include errors, care should be taken to ensure that the first paycheck includes all hours rightfully due the employee.

### **Misreporting of Payroll Hours**

Finding: Professor A employed 3 graduate students and a recent University graduate to assist with a project. The work was performed in addition to the student's normal work week while classes were in session. The audit revealed that the students were paid the extra hours worked during the spring break rather than when the hours were actually worked. Professor A stated that he frequently employs this practice, i.e. have students work more than their maximum allowable hours per week (30 hours) while school is in session and "bank" the excess hours for later payment, e.g., during the summer or spring break. Not only did these actions violate University timekeeping policies but the professor's actions could jeopardize a foreign student's presence in the U. S

In addition, the recent University graduate, who could no longer be paid as a student worker, was to be paid by one of the graduate students directly to avoid having to establish the graduate as an employee. The graduate student was to pay the recent graduate with a personal check from the proceeds earned for their work on the special project. To cover the payment, the graduate student had planned to submit a second timesheet during the summer for the exact number of hours paid to the recent graduate.

Recommendations: - Reinstruct the professor in University hiring and timekeeping policies and procedures and monitor for compliance -Take appropriate disciplinary actions regarding violations of University policies and procedures - Cease the practice of "banking hours to be paid later" - Correct the University's payroll records and alleviate a potential Wage and Hour issue by paying the worker properly for the hours actually worked - Emphasize that the HR/Payroll representative is to advise supervisors on correct procedures and take appropriate disciplinary action regarding violation of University policies and procedures and - Ensure that the HR/Payroll representative follows University policies and procedures; provide re-training, as necessary, and monitor activity to detect policy workarounds, e.g., "banking of hours to be paid later".

Learning Points: This is an illustration of disregard for University Human Resources and Payroll policy. Occurrences of this type should be reported immediately to unit or department management and appropriate action taken swiftly. The audit recommendations indicate the precise actions that should be taken to correct the situation and also to prevent future occurrences.

### **PCard Personal Purchases and Wasteful Spending**

Finding: A review of disbursement transactions (PCard & other procurement processes) for a remote location where departmental oversight was less than effective uncovered a total loss of \$9,232 in personal purchases and wasteful spending. The audit found that clothing, an audio system, and other personal items were purchased. In addition, wasteful spending (ie. not most economical purchases) included magazines, books, expensive pen & pencil sets, and a car wash pre-stored value card

Recommendations: If multiple PCards continue to be a necessity, require a pre-authorization form be signed by supervisory personnel prior to the purchase. Compliance should be monitored. In addition, FRS Departmental Manual Section # 9.10 should be read as a refresher especially the paragraph on allowable expenditures and their reasonableness and business-relationship.

Learning Points: Remote locations require an extra degree of review because they are removed from the main office and the routine oversight performed by main office personnel. This extra degree of review could include reconciling PCard purchases at the location but approving them at the main office. If this is not practical then the transactions should be reviewed on a sample basis and should include other types of transactions than PCard. Additionally, a careful review of the FBM 090/091 should be made for transactional activity and account balances.

### **Revenue Collection**

Finding: Employees who perform cash-handling duties have not been given cash receiving and robbery training. Incoming cash, check and credit card payments are not always handled in accordance with the University's Cash Receiving Policy, e.g., all mail is not opened centrally, payments are not reconciled to deposits to identify errors or missing funds.

Recommendation: Train cash-handling personnel regarding the University's Cash Receiving Policy and monitor for compliance.

Learning Points: Up to date training can reinforce the controls established in the FRS Department Manual "Cash Receiving Policy" one of which is the segregation of duties designed to prevent the diversion of incoming cash and checks. The smaller the department the more important the knowledge acquired in this training becomes because of the limited resources and the tendency to rely on one person. Because of limited human resources, alternative procedures need to be developed to allow for a segregation of duties- contact FSO for assistance. Another consideration is a formal billing process in that, if there is a receivable recorded, it is more difficult to divert payments since those receivables would be reviewed periodically and this review may highlight the missing funds. If it is a cash type business, the risk becomes greater and the need for a segregation of duties becomes more acute.