

**FISMA**  
**CALIFORNIA STATE UNIVERSITY,**  
**SAN MARCOS**

**Report Number 95-05**  
**December 15, 1995**

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**ABBREVIATIONS**

<b>AS</b>	<b>Analytic Studies</b>
<b>BA</b>	<b>Business Affairs</b>
<b>CO</b>	<b>Chancellor's Office</b>
<b>CTO</b>	<b>Compensatory Time Off</b>
<b>CSU</b>	<b>California State University</b>
<b>EO</b>	<b>Executive Order</b>
<b>FAS</b>	<b>Financial Accounting System</b>
<b>FISMA</b>	<b>Financial Integrity and State Manager's Accountability Act</b>
<b>IO</b>	<b>Independent Operation</b>
<b>IT</b>	<b>Information Technology</b>
<b>SAM</b>	<b>State Administrative Manual</b>
<b>SMIF</b>	<b>State Money Investment Fund</b>
<b>SUAM</b>	<b>State University Administrative Manual</b>

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## INTRODUCTION

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### PURPOSE

**The principal audit objective was to assess the adequacy of controls and systems which assure that:**

- **cash receipts are processed in accordance with laws, regulations and management's policy;**
- **receivables are promptly recognized and balances are periodically evaluated;**
- **purchases are made in accordance with laws regulations and management policy;**
- **revolving fund disbursements are authorized and processed in accordance with laws, regulations and management's policy;**
- **cash disbursements are properly authorized and are made in accordance with established procedures and adequate segregation of duties exists;**
- **payroll/personnel criteria for hiring employees, establishing compensation rates and authorizing disbursements are controlled and personnel and payroll are processing records and processing areas are restricted;**
- **purchase and disposition of fixed assets are controlled and recording of assets are made promptly in the subsidiary records;**
- **physical computer controls are in place and functioning;**
- **investments are adequately controlled and securities are safeguarded; and**
- **trust funds are established in accordance with SUAM guidelines.**

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### SCOPE AND METHODOLOGY

**The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests which required annualized data, the 1994-95 fiscal year was the primary period reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was July 1995 to August 1995. Our primary focus was on internal controls. Specifically, we reviewed and tested:**

- **posting of the original budget and major budget revisions;**
- **procedures for receipting and storing cash, segregation of duties involving cash receipting and recording of cash receipts;**

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## INTRODUCTION

- **establishment of receivables and adequate segregation of duties over the establishing of billing for and payment of receivables;**
- **approval of purchases, receiving procedures and reconciliation of expenditures to State Controller's balances;**
- **limitations on the size and types of revolving fund disbursements;**
- **use of petty cash funds, periodic cash counts, and reconciliation of bank accounts;**
- **authorization of personnel/payroll transactions, accumulation of leave credits in compliance with state policies and maintenance of minimum leave balances for participants in the direct deposit program;**
- **posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories;**
- **access restrictions to automated accounting systems and proper documentation of the systems;**
- **procedures for initiating, evaluating, and accounting for investments; and**
- **establishing of trust funds, separate accounting, adequate agreements, and annual budget.**

**We have not performed any auditing procedures beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not discussed.**

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## BACKGROUND

**In 1983, the California Legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act required that state agencies establish and maintain a system of internal accounting and administrative control. To ensure that the requirements are fully complied with, the head of each agency is required to prepare and submit a report on the adequacy of the system of internal accounting and administrative control following the end of each odd-numbered fiscal year. Prior to 1992, the California Department of Finance had conducted these reviews. However, due to staffing reductions they are no longer conducting such audits. The Office of the University Auditor of the CSU is now responsible for conducting the audits of internal accounting and administrative control within the CSU. This report represents our biennial review.**

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## OPINION

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## INTRODUCTION

We visited the CSU San Marcos from August 21, 1995 through October 13, 1995 and audited the internal control structure in effect at that time.

In accordance with the Government Code Section 13402, et seq., state agency heads are responsible for establishing and maintaining systems of internal accounting control. The broad objectives of control systems for state agencies are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded from unauthorized use or disposition; and
- transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial reports in accordance with the State Administrative Manual.

Because of inherent limitations in control systems, errors or irregularities may occur and not be detected. In addition, projection of any evaluation of systems to future periods is subject to risk since procedures may become inadequate as a result of changes in conditions, or the degree of compliance with the procedures may deteriorate. (See *Appendix B, Statement of Internal Controls*.)

We found that, except for the items noted in the Executive Summary and in the detail of the report, controls were in place and functioning adequately and compliance with related CSU and campus policies and procedures were satisfactory.

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## EXECUTIVE SUMMARY

The purpose of this section is to provide management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

### CASH RECEIPTS

#### SATELLITE CASH COLLECTION CENTERS [6]

Cash collections in the library and health center were not forwarded to the campus cashiering office in a timely manner. The change fund and daily cash collections in the health center were left in an unsecured desk drawer during business hours. Securing cash and forwarding collections to the cashiering office daily or when a minimum amount is collected reduces exposure to potential revenue loss.

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## INTRODUCTION

### ACCOUNTS RECEIVABLE

#### TIMELY BILLINGS [7]

**The campus was not billing project accounts timely for services provided by the general fund. Collecting outstanding obligations owed the general fund from other fund sources timely increases both the amount of working capital available to run the campus and the state share of revenue from investment.**

#### COLLECTION PROCEDURES [7]

**The campus was not following-up on outstanding student receivables in a timely manner. In addition, follow-up activity was not always documented. Ensuring timely follow-up and proper documentation limits the potential for loss of revenue from uncollectible accounts and increases working capital.**

### REVOLVING FUND [8]

**The campus was not clearing salary advance receivables timely. Some outstanding salary advances appeared to be highly uncollectible. Following established salary advance clearance policy and procedures encourages timely collection and maximizes use of the revolving fund.**

### CASH DISBURSEMENTS

#### UNSYNCHRONIZED DATA FEEDS BETWEEN AUTOMATED APPLICATIONS [9]

**Data transfers between the two cash accounting computer applications at the campus yielded unreliable cash balance reports preventing the campus from accurately reconciling its bank accounts. Effective coordination of application data feeds for accuracy and reliability should improve financial recordkeeping and accountability.**

#### OUTSTANDING CHECKS [10]

**Campus clearing of long outstanding university checks is not timely. Canceling long outstanding checks and remitting the funds to the Special Deposit Fund should decrease the amount that may ultimately revert to the general fund and lessen the effort to prepare monthly reconciliations.**

### INFORMATION TECHNOLOGY

#### PASSWORD SECURITY [10]

**The Oracle Database Management System had not incorporated a mechanism for periodic changing of passwords. Implementing computing controls requiring users to periodically change their passwords reduces the risk of violation of system and data security.**

## DISASTER RECOVERY PLAN [11]

**The campus did not have a written disaster recovery plan for computing and telecommunications. A written disaster recovery plan clearly identifies the actions necessary to resume computing services after a disaster.**

## INVESTMENTS [12]

**The campus had not established written investment policies and procedures. An investment program had not been fully established for periodic review of trust account cash available for investment. This is a repeat finding from a previous FISMA review. Developing written investment policies and procedures and conducting cash flow analyses of trust accounts to maximize invested amounts results in increased investment earnings in the accounts.**

## TRUST ACCOUNTS

### POLICIES AND PROCEDURES [12]

**The campus had not established written policies and procedures for opening and operating trust accounts. This is a repeat finding from a previous FISMA review. Control of trust accounts is enhanced when policies and procedures for opening and operating the accounts are established in writing.**

### TRUST AGREEMENT DOCUMENTATION [13]

**The campus was unable to provide a trust agreement for two of the ten trust accounts reviewed. In addition, two agreements needed updated to include the name of persons currently authorized to expend funds. Documenting and maintaining a current record of trust agreements enables the campus to effectively execute its fiduciary responsibilities.**

## CASH RECEIPTS

### SATELLITE CASH COLLECTION CENTERS

**Our review of a sample of satellite cash collection centers indicated that internal controls were inadequate at both the health center and the library.**

#### Health Center

**Cash collections were not deposited in a timely manner. Health center cash collections were forwarded to the campus cashiering office weekly.**

**The change fund and daily cash collections in the health center were unsecured in a desk drawer during business hours. While the health center had a cash register, the office manager stated that it did not function properly and was not used.**

#### Library

**Cash collections were not deposited in a timely manner. Library cash collections were forwarded to the campus cashiering office biweekly.**

**SAM Sections 8020, 8023, 8024, 8030.1 and 20003 each addresses internal control over collections. In addition, SUAM Section 3821 provides that the Chief Business Officer shall establish control procedures to ensure that all monies are safeguarded and deposited in a timely manner.**

**In the absence of campus policies and procedures, health center and library staffs had established the practices of forwarding cash collections to campus cashiering on a weekly (health center) and biweekly (library) basis without regard to the amounts collected.**

**Cash losses can occur when collections are not forwarded to campus cashiering for deposit when minimum amounts are collected.**

#### **Recommendation 1**

**We recommend that the campus establish and implement procedures to ensure the timely forwarding of cash collections to the cashiering office from satellite cash collection centers.**

#### **Campus Response**

**The Health Center and Library management have been contacted regarding proper cash handling procedures. Cash handling procedures discussed with Health Services included cash receipt operations and the securing of funds during business hours and over night. Additionally, a campus cash handling procedure is being drafted which will provide a uniform set of instructions to satellite points of sale regarding the safeguarding of cash. The campus procedure will specifically address the prompt restrictive endorsement of checks and the timely deposit of cash receipts to the Cashier's Office. Surprise audits will take place to ensure compliance.**

## **ACCOUNTS RECEIVABLE**

### **TIMELY BILLINGS**

**The campus was not billing project accounts timely for services provided by the general fund.**

**SAM Section 8776.3 states that an invoice or other claim document will be prepared and sent out as soon as possible after the recognition of a claim.**

**SAM Section 8099 states that agencies will secure prompt reimbursement from grant funds for goods and service provided, or, when possible, agencies will obtain a Federal letter of credit.**

**The assistant budget analyst stated that the billings had not occurred because of year end closing activity.**

**Failure to collect, in a timely manner, outstanding obligations to the general fund from other fund sources not only reduces the amount of working capital available to run the campus, but also cost the state lost revenue in terms of investment.**

**Recommendation 2**

We recommend that the campus ensure timely billing of project accounts.

**Campus Response**

**We concur and will comply.**

**COLLECTION PROCEDURES**

**The campus was not following-up on outstanding student receivables in a timely manner. In addition, follow-up activity was not always documented.**

**SAM Section 8776.6 and campus collection procedures provide specific criteria for collecting outstanding amounts owed the university including the sending of three follow-up letters at thirty day intervals after the initial billing and use of tax offset.**

**During 1994-95 the campus did not have an accounts receivable staff person to routinely track and follow up on outstanding student financial aid accounts.**

**The lack of timely follow-up and collection of outstanding accounts receivable may contribute to nonpayment of some debts; it also reduces the amount of working capital available to the campus.**

### **Recommendation 3**

**We recommend that the campus follow established procedures to promptly follow-up and document student receivable collections activity.**

### **Campus Response**

**As a result of the previous FISMA audit, the campus recognized the need to hire staff to adequately support collection functions and hiring took place in July 1995. The campus has implemented more stringent collection and disenrollment procedures. Monthly billings have been initiated and are now a routine collection method and the campus does participate in the Franchise Tax Board offset program as a final means of collection. We believe we are currently in full compliance with this standard.**

## **REVOLVING FUND**

**The campus was not clearing salary advances in a timely manner. Based on a random sample selection and review of twenty-five salary advance transactions, twenty-one transactions were outstanding over 60 days. One transaction was outstanding since 1991. Some salary advances appeared highly uncollectible because of the length of time outstanding.**

**SUAM Section 3813 provides that salary advances to employees are to be cleared when the corrected or delayed warrant for the pay period involved is received, not to exceed sixty days.**

**SAM Section 8776.6 provides specific criteria for collecting outstanding amounts owed the university including the sending of three follow-up letters at thirty day intervals after the initial billing and the use of tax offset.**

**The Assistant Director of Human Resources stated that staff turnover contributed to the lack of timely follow-up and collection of salary advances.**

**Failure to timely follow-up and clear salary advances may contribute to nonpayment of some debts.**

### **Recommendation 4**

**We recommend that the campus follow established state and system policy to follow-up and clear salary advance receivables.**

### **Campus Response**

**The campus is working diligently to clear old outstanding salary advances. The State Controller's Office has been contacted for assistance in this matter. New salary advances are now cleared in a timely manner by following the established salary advance clearance policy and procedures.**

## CASH DISBURSEMENTS

### UNSYNCHRONIZED DATA FEEDS BETWEEN AUTOMATED APPLICATIONS

Data transfers between the two cash accounting software applications at the campus yielded unreliable cash balance reports. For the months of April, May, June, and July 1995, negative cash balances, as shown on the cash reconciliation reports, were as follows: (\$3,239,001), (\$2,902,765), (\$2,874,083), and (\$328,495) respectively. Accounting office management stated that the true cash position for each of these months was a positive cash balance.

SAM Section 20003 provides that the elements of a satisfactory system of internal accounting and administrative control shall include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The lack of coordination of month end cutoff dates, duplicate data entries, and questionable data feeds into general ledger accounts were factors contributing to the unreliable financial reports.

Due to the unreliability/synchronization of the various cash balance reports, the campus cannot accurately reconcile its bank accounts.

#### Recommendation 5

We recommend that the campus more closely monitor data feeds to the Financial Accounting System (FAS) from the Banner Student Records and Cashiering system to include: coordinating cutoff dates, eliminating duplicate entries, and scrutinizing month end data transfers into the general ledger.

#### Campus Response

Negative cash balances reported previously were the result of the double postings of financial aid disbursements to the general ledger via the incorrect assignment of detail code attributes in the BANNER Student module. This error for previous postings and the system detail codes has been corrected. A daily review of net BANNER transactions compared against FRS posting is now taking place with any discrepancies researched and corrected in a more timely manner. We believe we are in full compliance with this standard.

## OUTSTANDING CHECKS

**Campus clearing of long outstanding university checks is not timely. As of October 13, 1995, the campus had 58 checks outstanding over two years totaling \$23,713.**

**SAM Section 8042 states that whenever general cash and revolving fund checks are outstanding over two years, they will be canceled and the amount of such checks will be remitted to the Special Deposit Fund as unclaimed moneys.**

**Accounting office management stated that staffing position changes and workload contributed to the task not being performed.**

**Not canceling and remitting long outstanding checks to the Special Deposit Fund results in misclassified amounts that may ultimately revert to the General Fund and requires additional effort to carry the outstanding items on both reconciliations and accounting records.**

### Recommendation 6

**We recommend that the campus cancel all checks outstanding over two years and remit the amount of these checks to the State Controller's Office Special Deposit Fund Unclaimed Trust Account.**

### Campus Response

**All checks older than 12/31/93 have been researched, either voided, or canceled and remitted to the State Controller's Office Special Deposit Funds Unclaimed Trust as required per SAM Section 8042. All aging outstanding checks will continue to be monitored and cleared on a regular basis.**

## INFORMATION TECHNOLOGY

### PASSWORD SECURITY

**The Oracle Database Management System had not incorporated a mechanism for periodic changing of passwords.**

**Computer database systems require that data integrity is maintained through various security checkpoints. One of these, and perhaps the most basic, is the use of passwords. A common computing control for security of passwords is periodic system prompts to users to change their passwords.**

**The computing staff systems analyst stated that the Oracle Database Management System does not have an aging mechanism necessary to periodically prompt users to change their passwords.**

**The campus risks violation of system and data security by not ensuring that passwords are periodically changed.**

### Recommendation 7

**We recommend that the campus establish procedures to ensure that user passwords are periodically changed.**

**Campus Response**

**We concur with the findings and plan to implement the recommendation. We are engaging in discussions with Oracle on their plans to enhance the product to include the capability for automatic aging of passwords. If we can not anticipate this being available soon, then we will develop local mechanisms and administrative procedures to ensure periodic changing of passwords.**

**DISASTER RECOVERY PLAN**

**The campus did not have a written disaster recovery plan for computing and telecommunications.**

**SAM Section 4843 states that the disaster recovery planning process provides necessary preparation to design and document a sufficient set of procedures to assure continued agency operations in the event of a disaster. Each agency's process should include certain elements and culminate with the documentation of results in the form of an Operational Recovery Plan.**

**The Director of Computing and Telecommunications stated that disaster recovery planning has been addressed by off-site storage of data and programs, backup energy sources, and by identifying alternate computing sites. However, the plan had not been established in writing.**

**The campus cannot be assured that computing services and telecommunications can continue or return to a normal state after a disaster, whether man made or natural.**

**Recommendation 8**

**We recommend that the campus establish a disaster recovery plan in writing for computing and telecommunications.**

**Campus Response**

**While we do have a procedure for maintaining critical data and programs off-site, so that the data could be used elsewhere in the case of major disaster, we concur with the findings that we do not have a written disaster recovery plan for computing and telecommunications. We will establish such a plan in writing, as per the recommendation.**

## INVESTMENTS

**The campus had not established investment policies and procedures in writing. An investment program had not been fully established for periodic review of trust account cash for investment. This is a repeat finding from the previous FISMA review.**

**SUAM Section 2813 states that in order to maximize funds, they should be invested whenever possible.**

**The campus has established the practice of reviewing trust account balances once per month for excess funds.**

**Failure to both develop written investment policies and procedures and conduct periodic cash flow analyses of trust accounts to maximize invested amounts results in reduced investment earnings for the campus.**

### Recommendations 9

**We recommend that the campus establish investment policies and procedures in writing and periodically review trust accounts for investable surplus cash.**

### Campus Response

**The EVP and the Executive Director of Finance and Budget review trust account balances monthly, and utilize SMIF as the cash trust investment vehicle. The campus will establish and follow a written investment policy.**

## TRUST ACCOUNTS

### POLICIES AND PROCEDURES

**The campus had not established written policies and procedures for opening and operating trust accounts. This is a repeat finding from our previous FISMA review.**

**SAM Section 20003 states that the elements of a satisfactory system of internal accounting and administrative control include an established system of practices to be followed in performance of duties and functions in each of the state agencies.**

**The trust accountant stated that cash trust operating policies and procedures were drafted and awaiting approval.**

**When policies and procedures are not in writing, misunderstanding and improper acts may occur.**

### **Recommendation 10**

**We recommend that the campus establish in writing policies and procedures for opening and operating trust accounts.**

#### **Campus Response**

**We concur and will comply. The campus will finalize the existing draft policy and procedures for opening and operating trust accounts.**

### **TRUST AGREEMENT DOCUMENTATION**

**The campus was unable to provide a trust agreement for two of the ten trust accounts reviewed. In addition, two agreements needed updated to include the name of persons currently authorized to expend funds.**

**SAM Section 19440.1 states that each trust account shall be supported by documentation as to the type of trust, donor or source of trust monies, purpose, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balances, and restrictions on the use of monies for administrative or overhead costs.**

**The campus budget analyst, who is responsible for preparing trust agreements and establishing trust accounts, stated that staffing workload, and the need to get the accounts established quickly, contributed to the lack of proper documentation.**

**The campus cannot effectively execute its fiduciary responsibilities without documenting and maintaining a current record of trust agreements.**

### **Recommendation 11**

**We recommend that the campus ensure that adequate, updated supporting documentation be maintained for all trust accounts.**

#### **Campus Response**

**The campus will ensure that cash trust agreements reflecting current information will be established for all trust accounts.**

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**APPENDIX A:  
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
<b>Bill W. Stacy</b>	<b>President</b>
<b>Barbara Acevedo</b>	<b>Supervisor, Accounts Payable</b>
<b>Tina Bell</b>	<b>Supervisor, Cashiering</b>
<b>James Carr</b>	<b>Warehouse/Property Control &amp; Inventory Clerk</b>
<b>Deborah Coronado</b>	<b>Assistant Director, Human Resources Management</b>
<b>Barbara Dovenbarger</b>	<b>Director, Fiscal Operations</b>
<b>Suzanne Green</b>	<b>Executive Director Finance &amp; Budget</b>
<b>Michael Gray</b>	<b>Accountant</b>
<b>Joel C. Grinolds</b>	<b>Director, Student Health Services</b>
<b>Ken Guerrero</b>	<b>Accountant, Financial Aid Business Operations/Fiscal Operations</b>
<b>Linda Hawkins</b>	<b>Director, Procurement Services</b>
<b>Mary Kollmeyer</b>	<b>Office Manager, Student Health Services</b>
<b>Linda Leiter</b>	<b>Assistant to the Executive Vice President</b>
<b>Peggy Lepere</b>	<b>Library Assistant, Public Services</b>
<b>Richard Loucks</b>	<b>General Ledger Accountant</b>
<b>Richard Neu</b>	<b>Supervisor, Materials Management</b>
<b>Norm Nicolson</b>	<b>Director, Computing &amp; Telecommunications</b>
<b>Bob Page</b>	<b>Financial &amp; Administrative Systems Analyst</b>
<b>Cathleen Rank</b>	<b>Budget Analyst</b>
<b>Marion Reid</b>	<b>Dean, Library Services</b>
<b>Judith Taylor</b>	<b>Director, Human Resources Management</b>
<b>Paul Tiglao</b>	<b>Trust Accountant</b>
<b>Wayne Veres</b>	<b>Staff Systems Analyst</b>
<b>Ernest E. Zomalt</b>	<b>Executive Vice President</b>

## STATEMENT OF INTERNAL CONTROLS

### A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the CSU Board of Trustees, and the Office of the Chancellor are evaluated by the University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

### B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls which may be characterized as either accounting or operational as follows:

#### 1. Internal Accounting Controls

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

#### 2. Operational Controls

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

### C. INTERNAL CONTROL OBJECTIVES

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

**D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

**There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.**