

FISMA
CALIFORNIA STATE UNIVERSITY,
NORTHRIDGE

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INTRODUCTION

Purpose	1
Scope and Methodology	1
Background	2
Opinion	3
Executive Summary	3

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Cash Receipts	6
Accounts Receivable	6
Student Accounts Receivable	6
Non-Student Accounts Receivable	7
Payroll and Salary Advance Receivables	8
Collection of Jury Duty Pay	9
Purchasing	10
Revolving Fund	10
Travel Advances	10
Change Funds	11
Personnel/Payroll	13
Trust Agreements	13

APPENDICES

APPENDIX A: PERSONNEL CONTACTED
APPENDIX B: STATEMENT OF INTERNAL CONTROLS
APPENDIX C: CAMPUS RESPONSE
APPENDIX D: CHANCELLOR'S ACCEPTANCE

ABBREVIATIONS

AS	Analytic Studies
BA	Business Affairs
CO	Chancellor's Office
CSU	California State University
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
IO	Independent Operation
LAIF	Local Area Investment Fund
SAM	State Administrative Manual
SMIF	State Money Investment Fund
SUAM	State University Administrative Manual
TEC	Travel Expense Claim

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.**

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 December 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;**
- **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.

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.

OPINION

We visited the CSU Northridge campus from November 14, 1995 through January 26, 1996 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.*)

Since the previous FISMA review, the 1994 Northridge earthquake interrupted normal financial and business activities. Virtually all of the accounting, accounts payable, accounts receivable, procurement, payroll, and cashing operations had to be restored in a variety of temporary facilities. In some cases, databases had to be recreated to support accounting functions such as accounts receivable. Some of the original supporting documents were destroyed. Remaining documents and forms were gathered and boxed by cleaning crews and staff had to sort the documents later in the recovery effort. The restoration of the business and accounting activities has been largely completed. The findings and recommendations, to some degree, reflect the backlog created by the disaster. Campus personnel should be commended for their persistence and commitment under very difficult circumstances to restoring the financial integrity of the campus business practices.

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.

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 [6]

The cash management office did not have written policies and procedures to guide cashing staff in opening, operating, and closing responsibilities. Establishing written policies and procedures would standardize the cashing operation and ensure greater cash accountability.

ACCOUNTS RECEIVABLE

STUDENT ACCOUNTS RECEIVABLE [6]

The campus was not conducting timely follow-up on unpaid student accounts. In addition, tax offset, the use of collection agencies, and write-off were not being pursued in a systematic manner. Ensuring timely follow up and collection of unpaid account limits the potential for loss of revenue from uncollectible accounts and increases working capital.

NON-STUDENT ACCOUNTS RECEIVABLE [7]

Long outstanding non-student accounts receivable, that appear highly uncollectible, are not being written off. Writing off uncollectible accounts in a timely manner and/or submitting them for collection reduces expenditures related to the collection effort.

PAYROLL AND SALARY ADVANCE RECEIVABLES [8]

Payroll and salary advance receivables were not being collected timely. Ensuring timely follow-up and collection of payroll and salary advance receivables limits the potential for loss of revenue from uncollectible accounts and increases working capital.

COLLECTION OF JURY DUTY PAY [9]

There were no campus procedures in place to assure systematic collection of outstanding jury duty receivables. This is a repeat of a finding from the FISMA audit conducted in 1993. Timely follow-up and collection of outstanding jury duty receivables limits the potential for loss of revenue from uncollectible accounts.

PURCHASING [10]

Purchasing related signature records needed updating and purging of dated records. Maintaining current signature authorization records helps to ensure properly authorized purchase requisitions and fund expenditures.

REVOLVING FUND

TRAVEL ADVANCES [10]

The campus was not clearing all travel advances timely. Clearing travel advances within 30 days after completion of travel enables use of the revolving fund to its fullest extent and limits the potential for loss of revenue from uncollectible account.

CHANGE FUNDS [11]

Cash counts of five of twenty-one change funds were not conducted in a timely manner. In addition, the campus was unable to provide documentation of Department of Finance approval to establish two change funds exceeding \$750. Timely and consistent cash counts help to ensure accountability and safeguarding of change funds.

PERSONNEL/PAYROLL [13]

Sick leave and vacation postings were inaccurate in seven of twenty instances of leave records reviewed. Updating leave accumulations at periodic intervals should improve recordkeeping and accountability.

TRUST AGREEMENTS [13]

Campus trust agreements did not contain all of the required documentation. This is a repeat of a finding from the FISMA audit conducted in 1993. Appropriately documenting trust accounts enhances control of the account and reduces misunderstanding about its operation.

CASH RECEIPTS

The cash management office did not have written policies and procedures to guide cashiers in opening, operating, and closing responsibilities.

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

The cashiering supervisor stated that most of the staff had long term cashiering experience and could draw upon their collective knowledge to resolve problems in the absence of a manager. Also, the cashiering application software was soon to change requiring new procedures and a new operations manual.

Cash accountability and control is enhanced with documented operating procedures.

Recommendation 1

We recommend that the campus establish written policies and procedures for its cashiering operation.

Campus Response

The campus agrees with this finding and a procedures manual is currently being written to document opening, operating, and closing requirements for the cashiering operation.

ACCOUNTS RECEIVABLE

STUDENT ACCOUNTS RECEIVABLE

The campus was not conducting timely follow-up on unpaid student accounts. In addition, tax offset, the use of collection agencies, and write-off were not being systematically pursued.

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. Subsequent to these billings, provisions can be made for the use of collection agencies and tax offset.

The campus has established the practice of invoicing only those accounts having transaction activity in the prior month. Accounts with no activity in the prior month are invoiced once every quarter. An estimated 25,000 invoices go out during these billings. The university does place financial holds on student records resulting in the withholding of all campus services.

Untimely 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. Failure to write off uncollectible accounts in a timely manner and/or submit for collection or tax offset inflates assets and results in unnecessary expenditures related to the collection effort.

Recommendation 2

We recommend that the campus:

- a. follow up on unpaid student accounts more timely; and**
- b. systematically use tax offset, collection agencies and write-off procedures.**

Campus Response

The campus agrees that timely follow up on unpaid student accounts is critical. All of the criteria set forth in SAM related to the timely collection of outstanding student accounts has been implemented. All outstanding past due student accounts will be placed on tax offset beginning with the next FTB offset cycle, and the campus is in the process of developing an RFP to contract for collection agency services. A thorough analysis of past due student account receivables is being conducted and accounts will be written off as appropriate prior to June 30, 1996.

NON-STUDENT ACCOUNTS RECEIVABLE

Long outstanding non-student accounts receivable, that appear highly uncollectible, are not being written off. At the time of our review, receivables outstanding for more than two years included:

Outstanding Non-Student Accounts Receivable	
By Fiscal Year	
<u>Fund FY</u>	<u>Amount Outstanding</u>
1993-94	\$105,795
1992-93	32,787
1991-PY	<u>24,293</u>
Total	<u>\$162,875</u>

SAM Section 8776.6 states that if all reasonable collection procedures do not result in payment, departments may request, from the State Board of Control, relief from accountability of uncollectible amounts.

The accounts receivable supervisor stated that staffing shortages contributed to some functions going undone. She also indicated that the interruption of campus operations resulting from the January 1994 earthquake created additional billing delays. On May 14, 1996, we received additional information from the campus showing total outstanding non student accounts receivables to be \$80,380 as of April 30, 1996.

Failure to write off uncollectible accounts in a timely manner and/or submit for collection inflates assets and results in unnecessary expenditures related to the collection effort.

Recommendation 3

We recommend that:

- a. the campus review its outstanding non-student accounts receivable for collectability and write-off uncollectables accounts of \$1,000 or less, and
- b. seek relief from accountability through the State Board of Control for uncollectible accounts over \$1,000.

Campus Response

The campus agrees with this finding. Due to the nature and volume of work associated with the Northridge earthquake and resurrecting business and accounting systems and databases, a considerable amount of effort was required to restore the non-student accounts receivable recordkeeping function. This was accomplished by October 1995. However, the collection aspect was deferred until the records were brought current. An analysis of the non-student accounts

receivable balances as of April 1996 indicates that the amount of outstanding non-student accounts receivables collected since the completion of the audit fieldwork has reduced outstanding balances in PY91/92 and PY92/93 by as much as 71 percent. A complete analysis is currently underway to determine the cost/benefit of further collection efforts or requests for relief of accountability from the State Board of Control. The campus will regularly monitor outstanding non-student accounts receivable and apply appropriate collection and/or write-off procedures.

PAYROLL AND SALARY ADVANCE RECEIVABLES

The campus was not following up and collecting payroll and salary advance receivables timely. Outstanding receivables in this area totaled approximately \$425,000 as of November 1995.

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.

During our review we noted that outstanding payroll and salary advance receivables totaled approximately \$150,000 and \$275,000 respectively. The payroll officer stated that inadequate staffing, inadequate training, and earthquake related events contributed to the backlog of these outstanding receivables. We note that the campus had developed a plan to collect the amounts owed. Additionally, the campus has severely restricted the use of the revolving fund for salary advances. Updated payroll accounts receivable information received on May 14, 1996 showed that the amount outstanding as of April 30, 1996 totaled \$214,179.

Untimely follow up and collection of outstanding payroll receivables contributes to nonpayment of some debts; it also reduces the amount of working capital available to the campus.

Recommendation 4

We recommend that the campus follow established procedures to collect payroll and salary advance receivables.

Campus Response

The campus agrees with this finding. As stated in the audit, the campus has developed and is implementing a plan to collect outstanding payroll and salary advance receivables which were incurred prior to July 1995. This plan is in compliance with procedures specified in the State Administrative Manual and/or the campus's legal authority to collect the outstanding amounts. All receivables incurred subsequent to July 1995 are being collected in a timely manner.

COLLECTION OF JURY DUTY PAY

There were no campus procedures in place to assure systematic collection of outstanding jury duty receivables. This is a repeat of both a Department of Finance and prior FISMA audit finding. The campus had no records documenting the establishment of accounts receivable and billings to collect jury duty pay for ten staff persons absent approximately 103 days for jury service.

SAM Section 8594 states that accounts receivable will be established for compensable jury duty time on the basis of the number of paid appearances for jury duty multiplied by the established daily rate of jury fee for the court of service.

The director of finance and logistical services stated that jury duty receivables were not a high priority because the cost of collection exceeded the amounts due.

Untimely follow up and collection of outstanding jury duty receivables contributes to nonpayment of some debts.

Recommendation 5

We again recommend that the campus establish and implement collection procedures for outstanding jury duty receivables.

Campus Response

The campus has implemented a collection process for outstanding jury duty receivables and records are maintained for those persons reporting jury duty absences.

PURCHASING

Purchasing related signature records needed updating and purging of dated records. We also note that the need for updated signature authorizations records existed in both the payroll office and accounts payable department.

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

The manager of Purchasing and Contracts stated that meetings were held to address the control weakness for earthquake acquisitions, but signature authorizations were never forwarded. Procurement office management also confirmed the need for general updating of its signature authorization records.

Improper expenditure authorizations can occur when signature records are not current and updated timely.

Recommendation 6

We recommend that the campus obtain and forward updated signature authorization records to the procurement, payroll, and accounts payable departments on a periodic basis.

Campus Response

The campus is in the process of obtaining updated signature authorization records for payroll, procurement, and accounts payable from all campus departments.

REVOLVING FUND

TRAVEL ADVANCES

The campus was not clearing all travel advances timely.

As of December 1995, campus accounting records showed the following travel advances to be outstanding:

Outstanding Travel Advances

<u>Year of Advance</u>	<u>Number of Advances</u>	<u>Amount of Advance</u>
1993	14	\$ 3,748
1994	68	40,573
1995 (to June)	94	43,191
Total	<u>176</u>	<u>\$87,688</u>

SAM Section 8116.2 states that a properly prepared travel expense claim (TEC) to substantiate the travel expenses must be submitted as soon as possible after the trip(s) or at least once a month.

SAM Section 8112.5 states that revolving fund custodians will present invoices at least once each month for reimbursement of the fund.

The accounts payable supervisor, who also is responsible for the revolving fund, stated that there were no written procedures to guide staff in the handling and processing of revolving fund transactions. Additionally, she stated that some outstanding advances were not cleared because the campus was awaiting reimbursement from the State Controller's Office; other advances had cleared and were awaiting data input; and still others were not cleared in a timely manner. Updated information on outstanding travel advances received on May 14, 1996 showed 96 advances outstanding totaling \$44,399 as of April 30, 1996.

Long outstanding advances are more difficult to clear; they also tie up funds needed for other purposes.

Recommendation 7

We recommend that the campus ensure that travel advances are cleared within thirty days after completion of trips or at least once a month.

Campus Response

The campus agrees with this finding and is implementing notification and follow-up procedures to clear travel advances within the 30-day timeframe recommended by this audit.

CHANGE FUNDS

Cash counts of five of twenty-one change funds were not conducted in a timely manner. In addition, the campus was unable to provide records of approval by the Department of Finance to establish two change funds exceeding \$750.

Untimely cash count activity of the five change funds can be broken down into the following categories:

Change Fund Cash Counts

<u>Fund Name</u>	<u>Size of Fund</u>	<u>Cash Counts Required Frequency</u>	<u>Actual Frequency in 1994-95</u>
Cash Management	\$5,200	Monthly	4 months
Cash Management	5,000	Monthly	4 months
Mailroom	8,000	Monthly	2 months
PPM	300	Quarterly	2 quarters
Public Safety	285	Quarterly	1 quarter

SAM Section 8111.2 states that an employee other than the custodian of the change or petty cash fund will count it in accordance with the following schedule and report the count to the accounting officer.

<u>Size of Fund</u>	<u>Frequency of Count</u>
\$200.00 or less	Annually
\$200.01 to \$500.00	Quarterly
\$500.01 to \$2,500.00	Monthly
Over \$2,500.00	Monthly, if not prescribed more frequently by Fiscal Systems and Consulting Unit, Department of Finance

SAM Section 8111.2 states that each change fund in excess of \$750 will be established only after approval of the Fiscal Systems and Consulting Unit, Department of Finance.

The supervisor of accounts payable, who has responsibility for change fund cash counts, stated that staffing constraints contributed to untimely cash counts. The director of financial and logistical services stated that the campus had received approval from the Department of Finance to establish one change fund exceeding \$750 but not at the present amount and not for both funds.

Internal control of cash funds is compromised when the accountability requirement is performed inconsistently and untimely.

Recommendation 8

We recommend that:

- a) **the campus ensure that cash counts of change funds occur as frequently as required; and**
- b) **Department of Finance approval be obtained for all change funds over \$750.**

Campus Response

A schedule has been established and all change funds are counted monthly. Since the campus has been unable to acquire approval from the Department of Finance for the two change funds in question (approval was requested and denied) the change funds will returned to the General Fund.

PERSONNEL/PAYROLL

Sick leave and vacation postings were inaccurate in seven of twenty instances of leave records reviewed.

SAM Section 8534 states that agencies will maintain sick leave and vacation records for each employee. Std. Form 642 or 642a will be used to maintain individual sick leave and vacation credit balances. Information on sick leave and vacation usage will be obtained from monthly attendance reports, equivalent attendance summaries, Absence Requests, and Std. Form 634. An annual statement of leave will be prepared and given to each employee. Leave cards and other supporting documents will be adequately protected and will not leave the premises.

The payroll supervisor stated that, although office procedures require monthly updates to leave records, that did not always occur. Also, the campus has a manual leave accounting system.

The failure to maintain up-to-date employee leave records can result in the reporting of inaccurate leave balances and employees using leave that may not be available to them.

Recommendation 9

We recommend that the campus ensure that employee leave records are updated timely and accurately maintained.

Campus Response

A plan is being developed to verify leave balances for all employees. In addition, the development of an automated campus leave accounting system is one of the highest priorities for system

development in FY 96/97. These actions will ensure that leave records are updated on a regular basis and are accurately maintained.

TRUST AGREEMENTS

Campus trust agreements did not contain all of the required documentation. Each of the ten trust agreements examined did not contain documentation of the following: account time constraints, instructions for closing the account, disposition of unexpended funds, and a written disclosure of administrative or overhead costs. This is a repeat finding from the previous FISMA review.

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 the monies for administrative or overhead costs.

The manager of accounting services stated that the trust form presently used does not adequately address the documentation requirements and, therefore, needs revision.

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

Recommendation 10

We recommend that the campus obtain and retain all required documentation in support of each established trust/project account.

Campus Response

The current Trust Account Application form has been revised to include the information requirements noted in the finding. New forms have been distributed to all trust/project account holders for updated information.

**APPENDIX A:
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Blenda J. Wilson	President
Arthur Albert	Vice President, Administration and Finance
Clarence Askew	Manager, Asset Services
Jacque Boutin	Manager of Employment
Terry Castro-Oistad	Manager, Payroll Services
Joseph Dabbour	Circulations Librarian
Dudley D'Apremont	Supervisor, Receiving
Karen Hoefel	Director, Finance and Logistical Services
Carolyn Holmes	Payroll Supervisor
Nicetas Huff	Assistant Accounting Services Manager
Diane Jensen	Manager, Cash Management
Steve Johnston	Sergeant, Public Safety
Eleanor Jones	Manager, Business Systems, Administration and Finance Divisions
Jan Loritz	Assistant Director, Student Health Center
Paula Lumowa	Supervisor, Student Accounts Receivable
Angela McHugh	Supervisor, Accounts Receivable
Steve Montgomery	Director, Human Resources
Jan Olson	Investment Analyst
Beverly Palmberg	Manager, Administrative Programming, Information and Technology Resources
Chea Perry	Supervisor, Cash Management
Judy Reyes	Accounts Payable Manager
Mary Sosa	Manager, Purchasing and Contracts
Fred Strache	Director, Student Health Center
Linda Troutman	Manager, Accounting Services
Clark Wong	Director, Finance and Personnel, University Library

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.