Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5939

WASHINGTON STATE UNIVERSITY

Agency No. 365

July 1, 1996 Through June 30, 1997

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Overview

We have conducted an annual audit of Washington State University for the year ended June 30, 1997. Generally, the scope of our audit will encompass financial transactions, federal programs, and tests of compliance with state laws and regulations as required by Revised Code of Washington 43.09.260. The primary areas examined during an audit are those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are reviewed on a rotating basis over the course of several audits.

Depending on the size of an entity’s financial account balances, we perform certain procedures to express an opinion on the general purpose financial statements of the state of Washington. Our opinion on the state’s financial statements is provided in the Washington State Comprehensive Annual Financial Report. The scope of our audit of Washington State University included procedures related to our financial statement opinion.

In accordance with the Single Audit Act Amendments of 1996, we annually audit major federal programs administered by the state of Washington. Depending on the size and risk associated with an agency’s federal programs, we perform certain procedures to evaluate the state’s internal controls and compliance with federal requirements. Rather than perform a single audit at each agency, we audit the state as a whole, and publish the results in a statewide single audit report. The work performed at Washington State University did not include procedures to satisfy the requirements of the 1997 statewide single audit.

There were findings which are listed in the Schedule of Findings following this Overview, for Washington State University.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 31, 1997
WASHINGTON STATE UNIVERSITY  
Agency No. 365  
July 1, 1996 Through June 30, 1997

Schedule Of Findings

1. Department noncompliance with established internal controls and University policies over decentralized cash operations creates a potential for misappropriation of public funds.

Description of Condition

Washington State University (WSU) has approximately 580 cash handling units. Our testing of decentralized cash operations at 15 of these units revealed noncompliance with state regulations and WSU policies. We have noted similar noncompliance issues in other units reviewed in the prior three audits.

Each cash handling unit is responsible for preparing initial source documentation to support receipts received at decentralized locations. Although sufficient controls have been established by central administration, WSU has delegated the responsibility for implementation of established controls to each cash handling unit. The University’s ability to centrally monitor the adequacy of controls and compliance with state requirements and University policies is limited. WSU needs to ensure Deans and area Chief Financial Officers use these policies and controls at decentralized locations to reduce the potential for misappropriation of public funds.

Our review of decentralized cash operations revealed the following internal control weaknesses. Various combinations of the items listed occurred at all but three of the locations tested:

- Adequate segregation of duties or supervisory review does not always exist.
- Cash collections are not always supported by prenumbered, official receipts or cash register tapes at the original collection point.
- Checks are not always restrictively endorsed upon receipt.
- Receipts are not always counted prior to being stored for deposit on a subsequent day.
- Cash collections are not always deposited intact and in a timely way.
- Receipts are not always properly protected during the operating day by restricting access to the cashiering area or by the use of registers, safes or locks.
- Documentation could not be provided to support the approval of alternate receipt forms by the Assistant Vice President and Controller as required by University policy.
- Alternate receipt forms are generally not numerically controlled so completeness of deposits can be determined.

- Alternate receipt forms do not always contain an area to record the preparer’s name or initial to fix responsibility.

- Alternate receipt forms do not always contain an area to document mode of payment to determine whether deposits are made intact.

**Cause of Condition**

The University has developed a Business Policies and Procedures Manual to provide guidance in the areas of internal control and state compliance. The manual provides the basis for strong control systems in the area of decentralized cash receipting and addresses all significant state requirements. WSU has also developed a cash handling training class, but this class is not mandatory for all employees in key cash receipting positions. Results of our audit testing indicate that while the manual and training provide sound guidance, adherence to the established policies is not a priority in the departments.

**Effect of Condition**

Internal control weaknesses present individuals with the opportunity to perpetrate and conceal fraudulent activity without detection or allow inadvertent errors to occur and not be detected in a timely manner. Noncompliance with established internal controls over decentralized cash receipting increases the University's exposure to theft and misappropriation of funds. Weaknesses in the decentralized cash operations at WSU have been reported in the three preceding audit reports. In addition, a special audit dated August 22, 1997, reported that at least $44,337 in public funds was misappropriated in one department.

**Recommendations**

We recommend:

- University officials enforce adherence to state regulations and University policies related to cash receipting.

- University Deans, Chairs and Administrators improve accounting and administrative controls over decentralized cash operations.

- Management assign responsibility for monitoring of decentralized receipting controls to one individual for each college or department.

- WSU make cash handling training mandatory for all employees in key cash receipting positions.

**University's Response**

Response to Decentralized Cash Operations Finding

1. The report's major finding in the decentralized cash operations area states, "Department noncompliance with established internal controls and University policies over decentralized cash operations creates a potential for misappropriation of public funds."
The following comments relative to specific findings put those findings in clearer perspective and show that the magnitude of the conditions is considerably less than that implied by the finding.

A. "Adequate segregation of duties or supervisory review does not always exist."

Response

According to post-audit letters, this condition was found in just three of the audited units. Corrective action has, or will be, taken in all of the units.

B. "Cash collections are not always supported by prenumbered, official receipts or cash register tapes at the original collection point."

Response

In none of the post-audit letters sent to specific units were we able to find any with this cited condition.

C. "Checks are not always restrictively endorsed upon receipt."

Response

According to post-audit letters, this condition was found in just three of the audited units. Corrective action has, or will be, taken.

D. "Receipts are not always counted prior to being stored for deposit on a subsequent day."

Response

There is no state regulation or University policy that requires receipts to be counted before being stored for deposit on a subsequent day. As long as receipts are properly accounted for by use of approved receipting methods, and are counted and reconciled before deposit, counting them before they are placed overnight in a secure location is redundant.

E. "Cash collections are not always deposited timely and intact."

Response

None of the units that received post-audit letters were cited for a lack of intact depositing. Therefore, we are uncertain why the report cites this as a condition. There were just six units that were cited for untimely deposits, although there was no indication of how often this happened, so the materiality is difficult to assess. In all cases, corrective action was taken prior to issuance of the State audit report.

F. "Receipts are not always properly protected during the operating day by restricting access to the cashiering area or by the use of registers, safes or locks."

Response
Although the report is unclear as to what is meant by "restricting access" to cashiering areas, it is our understanding that the cash handling areas limit access to those people who have official business in the unit. We are uncertain how the use of a register or safe would result in restrict access to an "area". For the most part, cash locations are protected by the use of locks.

G. "Documentation could not be provided to support the approval of alternate receipt forms by the Assistant Vice President and Controller as required by University policy."

Response

University policy requires that the Assistant Vice President and Controller approve alternate receipt forms. In the two instances cited in the auditor’s post-audit letters, both had been appropriately approved, one in 1983 and one in 1991.

H. "Alternate receipt forms are generally not numerically controlled so completeness of deposits can be determined."

Response

Rather than "generally" not being controlled, this condition was found in just two units. New policies, started prior to the issuance of the audit report, establish a methodology for numbering alternate receipt forms.

I. "Alternate receipt forms do not always contain an area to record the preparer's name or initial to fix responsibility."

Response

We could find no reference in post-audit letters addressing this situation. Regardless, this issue, too, has been addressed in the new policies discussed earlier.

J. "Alternate receipt forms do not always contain an area to document mode of payment to determine deposits are made intact."

Response

According to post-audit letters, this condition was found in just two units. It, too, has been addressed in updated policies.

2. In the paragraph titled 'Effect of Condition', the last sentence states, "In addition, a special audit dated August 22, 1997 reported that at least $44,337 in public funds was misappropriated in one department."

Response

We question the need to include this statement in the report. If the support for the current audit findings is valid, then they should stand by themselves, without raising the issue of an audit that was begun long before the audit period covered by this report, and one that was publicized thoroughly in a special report. The inclusion
of this statement only serves to create the possibility of further negative publicity to the University. If its inclusion is intended to show an example of the negative aspects of cash-handling weaknesses, then we suggest that in the interest of balanced reporting there also be included a statement regarding the many, many years when there were no reported losses of public funds.

3. The report recommends:

A. "University officials enforce adherence to state regulations and University policies related to cash receipting."

Response

The University has always, and will continue to, enforce adherence to state regulations and University policies related to cash receipting. This is clearly demonstrated by the continued review and establishment of policies directed to this end.

B. "University Deans, Chairs and Administrators improve accounting and administrative controls over decentralized cash operations."

In its continued effort to improve accounting and administrative controls over decentralized cash operations, the University has (prior to issuance of the State audit report) enhanced already existing policies with the establishment of additional policies clarifying many aspects of decentralized cash handling. In addition, in December 1997, the Vice President for Business Affairs, and members of her staff, embarked on an educational program to inform management of the need for strengthened internal controls in cash handling areas. In December 1997 and January 1998, over thirty meetings were held with 170 upper level administrators. As part of this effort, unit administrators reviewed their procedures and completed over 300 internal control questionnaires related to cash handling. This is representative of the University's continued acknowledgement of the need for strong internal controls in the cash handling area.

C. "Management assigned responsibility for monitoring of decentralized receipting controls to one individual for each college or department."

Response

Prior to the issuance of the State audit report, the University began developing a policy that goes even farther than the one suggested in the State report. The new policy will assign the responsibility for obtaining receipts, and the subsequent accountability for the receipt inventory, to one individual in each cash-handling unit.

D. "WSU make cash handling training mandatory for all employees in key cash receipting positions."

Response

Mandatory training for cash handlers is not a requirement of State regulations or University policy. However, the University does recognize
the value of such training and will continue to make training available as
a high priority. The University has a method for monitoring changes in
cash handling personnel, and subsequently notifying administrators of the
availability of training.

Auditor's Remarks

We appreciate the University's response to this audit finding. We compliment the University
for the progress made to safeguard and account for cash receipts.

However, we disagree with the University’s comment that the magnitude of the conditions
is less than implied in the 'description of condition' section. Historically, as we have
performed follow-up procedures in the departments selected in the prior year, we find that
the conditions have been significantly resolved. However, when the new departments are
selected for review, we find similar conditions to exist. This has been a consistent pattern
from audit to audit.

While we recognize the University's commitment and progress in implementing internal
controls, we continue to stress to management that the area of cash receipting continues to
be high risk across the University.

Through continued emphasis on training and implementation of internal controls, we feel the
University will be able to further protect the public's assets.

Applicable Laws and Regulations

The state of Washington Office of Financial Management's (OFM) Policies, Regulations, and
Procedures Manual, Section 6.2.2.1.1. states in part:

a. No individual is to have complete control in the handling of
money, recording the transactions, and reconciling bank
accounts. Employees handling cash are to be assigned duties that
are complementary to or checked by another employee.

b. Incoming cash is to be made a matter of record as soon as
possible.

g. Collections made over the counter . . . are to be documented by
the issuance of sequentially prenumbered official receipts or
through cash registers . . . All such receipts are to be strictly
accounted for and the reason for any missing documents
determined and documented . . .

k. Receipts are to be deposited intact on a daily basis. In the
handling of cash and making of deposits, security procedures that
will safeguard the cash asset are to be followed.

WSU Business Policies and Procedures Manual (BPPM), Cash Receipting, 30.52 and 30.53,
further defines the required controls specific to the University:
WSU departments record all cash sales and all collections of cash or checks on a WSU receipt. Another receipt may be substituted with the Assistant Vice President and Controller’s prior approval.

All payments to WSU are to be deposited intact at least weekly with the Controller’s Office. Amounts totaling $100 or more are deposited the day of receipt. Prior to deposits, departments are responsible for providing adequate safeguards for cash and checks. Amounts must be deposited in total and in the same form as received, i.e., cash or checks.

The Revised Code of Washington (RCW) 43.09.240 requires that:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit moneys collected or received by he/she once every twenty-four hours.

2. Department noncompliance with established internal controls and University policies related to payroll processing creates a potential for misappropriation of public funds.

Description of Condition

Based on our review of decentralized payroll procedures at Washington State University (WSU), we found inadequate internal controls and noncompliance with state laws and regulations and WSU policies. Sufficient controls have been established at the central administration level, however, WSU needs to ensure Deans and area Chief Financial Officers adequately implement these policies and controls at decentralized locations.

WSU has more than 175 decentralized payroll units. Each unit is responsible for preparing initial source documentation to support payroll and to account for compensated absences. This documentation includes personnel action forms, temporary employee appointment forms, conditions of employment forms, daily activity reports, classified staff time reports and faculty leave reports which are all considered pay affecting time reports. Total payroll expenditures approximate $200 million each fiscal year. The development and implementation of adequate internal controls is the responsibility of each payroll unit. The University’s ability to centrally monitor the adequacy of controls and compliance with state requirements and University policies is limited.

Our review of eight payroll units revealed the following exceptions. We have also noted similar conditions in other units tested in the prior three audits. Specifically we noted:

- Segregation of duties is not always adequate. In some departments reviewed, one person is responsible for compiling, submitting and reviewing payroll information processed by Central Payroll Services. The same individual reviews and approves original time records, accounts for compensated absences, inputs data on the University’s computerized payroll system and reviews the Payroll Audit Expenditure Report generated by the University’s payroll program for accuracy. In some cases, there is no additional supervisory review of this person’s duties.

- Supervisory approval of time records does not always occur. Some pay affecting reports reviewed were not signed by the employee and/or supervisor.

- The University does not require prior written approval for leave. While we realize that written documentation is not specifically required by regulations, it appears that...
Some departments have not assigned responsibility to ensure that pay-affecting time reports which document leave accruals and uses are completed in a timely manner. We noted one department that did not complete leave reports for approximately four years.

- Procedures are not in place to ensure sick leave records for faculty are complete and accurate. In a review of 100 percent of current faculty in a judgmental selection of four university departments (59 faculty leave files), we noted that 46 faculty members (95 percent) did not claim any sick leave during a four-year period. Additionally, two faculty files tested reported no sick leave claimed for the entire appointment which was in excess of 20 years.

- Written notification of temporary appointment status is not always provided to employees as required.

- Departments do not always adhere to University requirements for reporting and monitoring Extended Professional Activities (outside work and consulting).

**Cause of Condition**

The University has developed a Business Policies and Procedures Manual and a Faculty Manual to provide guidance in the areas of internal control and state compliance. The manuals provide the basis for strong control systems in the area of payroll and addresses all significant state requirements. During fiscal year 1998, the University has implemented payroll training classes. These classes appear to benefit the participants and have improved payroll processing procedures at the department level. Results of audit procedures indicate that, while the manuals and training provide sound guidance, adherence to the established policies and controls is not a priority in the departments.

**Effect of Condition**

Internal control weaknesses and noncompliance present individuals with the opportunity to perpetrate and conceal fraudulent activity without detection or allow inadvertent errors to occur and not be detected in a timely manner. Without accurate and complete reporting of leave accruals and uses, or time devoted to activities outside of official University duties, WSU cannot ensure that expenditures of public funds for personnel costs are appropriate and benefit the University.

**Recommendations**

We recommend:

- University management enforce adherence to state regulations and University policies.
University Deans, Chairs and Administrators improve accounting and administrative controls over payroll functions at the department level.

Continue payroll training for employees key to the payroll process.

University's Response

Response to Payroll Processing Finding

1. The 'Description of Condition' paragraph states, "The development and implementation of adequate internal controls is the responsibility of each payroll unit."

Response

This is inaccurate. The responsibility for the development of internal controls rests with the University's central administration, not the individual departments.

2. The last sentence in the paragraph titled 'Cause of Condition' states, "Results of audit procedures indicate that, while the manuals and training provide sound guidance, adherence to the established policies and controls is not a priority in the departments."

Response

We question the validity of this statement. The auditors provided no evidence as to what is, or is not, a priority in the departments. None of the post-audit letters sent to audited departments cited this as a condition in any of the departments. In our opinion, if this statement cannot be supported, then it should be removed from the report.

3. The following comments relative to specific findings put those findings in perspective and clarifies the magnitude of the conditions reported upon.

A. Segregation of duties is not always adequate. In some (our emphasis) departments reviewed, one person is responsible for compiling, submitting and reviewing payroll information... The same individual reviews and approves original time records, accounts for compensated absences, inputs data on the University's computerized payroll system, and reviews the Payroll Audit Expenditure Report..."

Response

We carefully reviewed the post-audit letters sent to audited departments and found no instances in which any department was cited because one person was "compiling, submitting and reviewing payroll information". Therefore, we question whether the word "some" adequately describes the conditions found.

We did find letters to three units that stated "The Payroll Expenditure Report (PEAR) should be reviewed by someone independent of the payroll processing function". But the letters to these units gave no indication that one person was responsible for all of the duties cited in the finding.
B. "Supervisory approval of time records does not always occur. Some pay affecting reports reviewed were not signed by the employee and/or supervisor."

Response

According to post-audit letters, this occurred in just two departments, and there was no indication of how many forms were unsigned, thus materiality is difficult to assess. Corrective action has, or will be, taken.

C. "The University does not require prior written approval for leave."

Response

There is no state or University requirement for prior written approval for leave. While the auditors may "feel" this a needed internal control, we believe it is inappropriate for those feelings to be expressed in the report as a recommendation. The University is in compliance with state regulations and University requirements for advance approval of leave. We believe it is the responsibility of the state auditor to ensure that the University is complying with existing documented policies and regulations rather than formulating new policies for the University.

Misinformation given to personnel of one audited unit by the state auditor resulted in unnecessary costs to the unit in establishing procedures to meet the nonexistent requirement for written pre-approval of leave. Personnel in the department were told that "required formal procedures" for leave included the use of a special form to document the written, pre-approval of leave. This advice was reinforced by the post-audit letter from the auditors that stated "The Department should establish formal procedures for pre-approving overtime and leave as required by Sections 251-22-070 and 251-22.110 of the Washington Administrative Code (WAC) and Section 6.2.2.1.10 of the State of Washington Office of Financial Management Finance and Administrative Policies, Regulations, and Procedures Manual (OFM) Manual)."

Based on the erroneous verbal comments, and supported by the erroneous statement in the post-audit letter, unit personnel expended considerable time, effort and expense to create and distribute a leave request form for written pre-approval of leave.

D. "Some departments have not assigned responsibility to ensure that pay-affecting time reports which document leave accruals and uses are completed in a timely manner."

Response

According to post-audit letters, this condition was found in just two departments. There was no indication of how many forms might have been submitted late; therefore we are unable to judge the materiality of this condition. Corrective action has, or will be taken.

E. "Procedures are not in place to ensure sick leave records for faculty are complete and accurate."

Response
We concur that an employee with a designated work period would be expected to record an absence due to illness or other appropriate medical reason as sick leave.

Faculty, however, do not have a designated work period, and it is not unusual or unexpected that a faculty member's work period might be longer than what is considered a regular or "normal" work period. If a faculty member has worked during the weekend and in the evenings and is then absent for two hours for, say, a medical appointment, the question arises as to whether it is reasonable to expect the individual to record the absence as sick leave. This is particularly true if, during his or her absence, another staff member may perform the individual's duties.

F. "Written notification of temporary appointment status is not always provided to employees as required."

Response

According to post-audit letters, this occurred in just two departments, and there was no indication of how many forms were unsigned, thus materiality is difficult to assess. Corrective action has, or will be taken.

G. "Departments do not always adhere to University requirements for reporting and monitoring Extended Professional Activities (outside work and consulting)."

Response

Corrective action has, or will be, taken to correct this condition. One department that was cited for this condition reported that they do have a process, and that it is completed as part of their annual review requirement.

4. The report recommends:

A. "University management enforce adherence to state regulations and University policies."

Response

The University has, and will continue to enforce adherence to state regulations and University policies. It is important to note that prior to the issuance of the state audit report, most units had already taken corrective action based on post-audit letters.

B. "University Deans, Chairs and Administrators improve accounting and administrative controls over payroll functions at the department level."

Response

The appropriate University administrators have clearly demonstrated by their rapid response to post-audit suggestions that they are interested in and concerned with improving administrative and accounting controls over payroll functions.
C. "Continue payroll training for employees key to the payroll process."

**Response**

The University recognizes the benefit of its payroll training and intends to continue that training. There has never been any consideration given to eliminating that training, even though the recommendation appears to imply that might have been considered.

**Auditor's Remarks**

We appreciate the University's response to our finding.

We compliment the University on the commitment to improve the internal controls over payroll processing at the department level. We would also like to recognize the efforts of the centralized payroll office for the training program provided to the decentralized departments.

We do, however, disagree with the University's general response that our finding depicts conditions that are either insignificant or not pervasive in the University's departments.

As noted in the 'description of condition' section, these conditions have been noted in prior audits. We have found that conditions have been significantly resolved in departments reviewed in prior audits, however, we noted that these general conditions exist in departments selected for review in subsequent audits. Therefore, we consider these weaknesses to be pervasive across the University and represent an increased risk of errors or irregularities in the payroll process.

We would like to note that with a continued focus on training, this effect should be diminished.

**Applicable Laws and Regulations**

Section 6.2.2.1.10 of the state of Washington Office of Financial Management Financial and Administrative Policies, Regulations, and Procedures Manual requires adequate controls over the payroll process:

a. Responsibilities for supervision and timekeeping, personnel, payroll processing, disbursements, and general ledger functions should be assigned to provide division of duties.

d. Detailed records of hours worked are to be maintained and approved . . .

g. Written procedures are required for approving, recording, and controlling sick leave, vacations, holidays, overtime, compensatory time, and stand-by time.

h. Procedures are to be established to ensure that all attendance reports and payroll reports are verified by supervisory personnel.

WSU Business Policies and Procedures Manual (BPPM) Payroll, 55.28; and Personnel, 60.61 further defines the required controls specific to the University:
The Payroll Expenditure Audit Report (PEAR) is used to verify the employee pay corresponds to the pay-affecting personnel documents which have been submitted by administrative units and processed by Human Resource Services and Payroll Services.

... a different employee should review the PEAR than the employee responsible for signing pay-authorizing documents...

The Daily Activity Report or the time clock is the official record of hours worked or pieces completed... The employee records the hours worked or pieces completed each day as the activity occurs... The employee signs the report certifying the accuracy of the report... The supervisor signs the report or time clock card verifying the accuracy of the report.

The Revised Code of Washington (RCW) requires advance approval of certain types of leave:

251-22-076 (2) All requests for vacation leave must be approved by the employing official or designee in advance of the effective date...

251-22-110 (1) Sick leave shall be allowed an employee... (h) for personal medical, dental or optical appointments or for family members’ appointments... if arranged in advance with the employing official or designee.

WAC 251-19-122 addresses notification requirements for temporary employees:

(1) All temporary employees shall be notified in writing of the conditions of their employment prior to the commencement of each appointment...

(2) The written notification shall include...

(a) the reason for the temporary appointment

(b) The hours of work and the hourly rate of pay

(c) The duration of appointment....

The BPPM, Personnel, 60.44 limits Extended Professional Activities and provides a method to monitor:

Outside work must not interfere with a faculty member’s normal WSU duties, including those non-classroom responsibilities expected of all faculty members.

... full time faculty must not spend more than one day per week on the average over an academic year in outside work. All outside work must be disclosed promptly and reported annually by the faculty member to the department chair or comparable unit administrator. A department chair or dean must report outside work to the... Provost.
Before the end of each fall semester, the deans, directors, and vice presidents shall evaluate reports submitted by employees . . . and prepare a report of these activities for the President.

Review may result in revision of activities based on apparent or emerging conflicts with WSU policy.

3. Noncompliance with state regulations and University policies related to fixed assets creates a potential for misappropriation or misuse of public property.

Description of Condition

Policies related to the property management system at Washington State University (WSU) require that certain equipment details be maintained in an inventory record on the mainframe computer. Inventoriable assets include:

- Items with a first cost of $5,000 or more with a life expectancy of more than one year.
- Items with a first cost of $500 or more with a life expectancy of more than one year, if supported by grant funds.
- Small and attractive items with a first cost of $300 or more including photographic, computer, communications and office equipment.
- Any firearm or weapon regardless of cost.

After a review of property inventories in six departments at WSU, we found noncompliance with state regulations and agency policies and procedures. Specifically, we noted:

- The University's Central Property Inventory Manager did not always ensure that departments conducted a physical inventory of all inventoriable assets every two years. Our review indicated that, of the six departments selected for testing, one department had not performed a physical inventory since fiscal year 1989 and another not since fiscal year 1991.
- The department Equipment Coordinators did not always tag all inventoriable fixed assets immediately upon receipt to identify the assets as state property. Twelve percent of assets selected for verification did not have agency tags.
- University departments did not update inventory records appropriately. Out of 25 records tested, three items had incorrect serial numbers, seven items had incorrect locations or had been moved off-site and four items of computer equipment could not be located.

Cause of Condition

WSU has developed a Business Policies and Procedures Manual to provide guidance in areas of internal control and state compliance. The manual provides the basis for strong control systems over fixed assets and addresses all significant state requirements in this area. Results of our audit testing indicate that, while the manual provides sound guidance and central management made attempts to gain compliance, adherence to the established policies is not a priority in the departments. In addition, the central Property Inventory Office was not
monitoring the completion of requests for departments to perform physical inventories within 45 days as required by WSU policies.

**Effect of Condition**

The University's failure to ensure compliance with state regulations and WSU policies related to fixed assets leaves the University vulnerable to undetected employee errors and misappropriation or misuse of assets.

**Recommendations**

We recommend:

- Central Management monitor and enforce policies related to physical inventories and fixed asset controls and safeguards.
- University Deans, Chairs and Administrators ensure the completion of physical inventories of all fixed assets in accordance with state regulations and University policies.
- University Deans, Chairs and Administrators take appropriate action to ensure the accurate recording, update or removal of items from the University's inventory records.

**University's Response**

Response to Fixed Assets Finding

1. The report's major finding in the fixed assets area states, "Noncompliance with state regulations and University policies related to fixed assets creates a potential for misappropriation or misuse of public property.

   The following comments relative to specific findings provide pertinent information that shows the University is involved in an ongoing effort to meet state regulations and University policies.

   The report states:

   A. "The University's Central Property Inventory Manager did not always ensure that departments conducted a physical inventory of all inventorable assets every two years. Our review indicated that, of the six departments selected for testing, one department had not performed a physical inventory since fiscal year 1989 and another not since fiscal year 1991."

   **Response**

   The University uses a multi-level process for eliciting departmental compliance to the two-year inventory requirement rule. Its steps include:

   An initial memo mailed with the biennial report, allowing 45 days for completion.
If, after 50 days, there is no response to the initial memo, the Property Inventory Manager sends a follow-up memo requesting completion.

If, after 21 days, there is no response to the second memo, another request memorandum is sent.

If there is still no response, the Associate Controller | Cash Management-Accounting sends a memorandum to the appropriate director or dean.

B. “The department Equipment Coordinators did not always tag all inventoriable fixed assets immediately upon receipt to identify the assets as state property. Twelve percent of assets selected for verification did not have agency tags.”

Response

According to post-audit letters, this condition was found in two units, therefore, a more accurate presentation would state, “In two departments . . . ” In both departments, corrective action was initiated prior to issuance of the auditor’s report.

C. “University departments did not update inventory records appropriately.”

Response

According to post-audit letters, this condition was found in two units, therefore, a more accurate presentation would be, “In two departments . . . ” In both departments, corrective action was initiated prior to issuance of the auditor’s report.

2. The report recommends:

A. “Central Management monitor and enforce policies related to physical inventories and fixed asset controls and safeguards.”

Response

The University will continue to monitor and enforce policies related to physical inventories and fixed asset controls and safeguards.

B. “University Deans, Chairs and Administrators ensure the completion of physical inventories of all fixed assets in accordance with state regulations and University policies.”

Response

The University will continue its efforts to make certain that the appropriate personnel ensure the completion of inventories of all fixed assets.

C. “University Deans, Chairs and Administrators take appropriate action to ensure the accurate recording, update or removal of items from the University’s inventory records.”
Response

The University will continue its efforts to make certain that the appropriate personnel ensure the accurate accountability for inventory items.

Auditor’s Remarks

We appreciate the University's response to our finding. We will review the corrective action taken by the University in our next audit.

Applicable Laws and Regulations

The state of Washington Office of Financial Management (OFM) Financial and Administrative Policies, Regulations, and Procedures manual lists the following internal controls and requirements for fixed assets:

Section 3.1.2.1.1 states:

Agencies are to initiate and document an inventory program to ensure that every inventoriable fixed asset is subject to a physical count or verification every two years.

Section 3.2.1.2.b states:

A satisfactory fixed asset inventory system must include mechanisms and procedures for controlling the addition to and removal of assets from inventory as well as the safeguarding of those assets currently held.

Section 3.2.2.2.a states:

Agencies are to adopt internal policies and procedures regarding the timely removal of fixed assets from inventory.

Section 3.1.2.2. states:

Immediately, upon receipt and acceptance, all inventoriable fixed assets of the state are to be marked in such a manner as to identify that the property belongs to the State of Washington and to the responsible agency.

WSU Business Policies and Procedures Manual, Section 20.50 - Property further defines the required controls specific to the University:

Property Inventory issues the department a computer listing of equipment. The department is responsible for returning the completed and signed listing within 45 days of the date the inventory request was received from Property Inventory. If this is not possible, contact Property Inventory and request a deadline extension.

The department chair (or equivalent administrator) is accountable and responsible for all equipment assigned to the unit. The department chair designates one or more individuals as equipment coordinators and notifies Property Inventory by memorandum. The equipment coordinator is responsible for placing inventory tags on the equipment.
Department personnel complete and route an Inventory Control Report form to update unit inventory records . . . (or) directly update records on the computer . . . (using) the Update Location selection.

Items which are damaged, obsolete, or otherwise considered unnecessary or unusable may be disposed of by one of the following methods:

- Transfer the item to Surplus Stores . . .
- Sell the item to Surplus Stores or another University department.
- Scrap the item for parts . . .

Note: Each disposed item must be accounted for by one of the above methods.

4. Department noncompliance with federal regulations and University policies related to the administration of sponsored projects resulted in cost transfers and overdrafts of approved budgets.

Description of Condition

Sponsored projects consist of activities which are funded, in whole or in part, by grants, contracts and cooperative agreements with sponsoring agencies including the federal government, state of Washington and private donors. Washington State University (WSU) is responsible for ensuring expenditures are charged to sponsored funds are in compliance with agreement terms, conditions and budget limitations. The University has delegated much of this responsibility to department personnel.

Our review of department procedures related to the monitoring and control of sponsored accounts revealed noncompliance with federal regulations and WSU policies. Although sufficient controls have been established at the central administration level to monitor and control these projects, cost transfers and overdraft accounts still originate at the department level. WSU needs to ensure that Deans, Chairs, Account Administrators and Principal Investigators adequately implement established policies and controls to reduce the potential for inappropriate costs being charged to sponsored projects.

An overall review of sponsored accounts at the University revealed that of approximately 3,000 sponsored accounts managed by the University, 223 accounts in 17 departments had recorded expenditures in excess of approved budgets as of July 9, 1997. An additional 197 accounts had been encumbered to overdraft status.

Our review focused on projects with cost transfers of more than $5,000 or 10 or more individual transactions. This focus resulted in the review of 22 projects in nine departments. We noted the following:

- Cost transfers were required when Account Administrators and/or Principal Investigators were not diligent in initially assigning costs to the appropriate funding source. This included instances where costs were initially charged to projects when they occurred outside of the authorized project beginning and ending dates.
- Cost transfers were required when accounts were not timely monitored for remaining budget.
• Department personnel approved project transactions and transfers when they were not authorized to do so by the granting institution.

**Cause of Condition**

WSU has developed a Business Policies and Procedures Manual to provide guidance in areas of internal control and federal compliance. The manual provides the basis for strong controls over sponsored projects in all significant areas. The University also changed policies related to cost transfers and overdrafts in November 1997 to further define department responsibility and stress the importance of preventing or minimizing transfers and overdrafts. Central administration has also increased awareness of the requirements by communications via department memos, electronic mail and training.

Results of our audit testing indicated that while the manual provides sound guidance and central management has gone to great lengths to require compliance, adherence to the established policies is not a priority for certain Account Administrators and Principal Investigators.

**Effect of Condition**

Cost transfers and untimely monitoring of sponsored account budgets at the department level increases the risk that unallowable costs could be charged to funded projects and not be detected in a timely manner. Similar instances of noncompliance have been reported in the preceding five audit reports.

**Recommendations**

We recommend:

• University Deans, Chairs and Administrators enforce adherence to federal regulations and University policies related to the administration and monitoring of sponsored projects.

• Budget Administrators and Principal Investigators take appropriate action to limit cost transfers and budget overdrafts.

• University central management continue communication of requirements and areas of concern to further improve adherence to established policies.

**University's Response**

Response to Administration of Sponsored Projects Finding

1. The report’s major finding in the Sponsored Projects area states, “Department noncompliance with federal regulations and University policies related to the administration of sponsored projects resulted in cost transfers and overdrafts of approved budgets.”

Response

We strongly disagree with this finding. In no instance did the auditors cite any findings of noncompliance with federal regulations. The two criteria cited in the report form Office of Management and Budget OMB Circular A-21, Section C.4, state:
b. Any costs allocable to a particular sponsored agreement ... may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.

And,

c. Any costs allocable to activities sponsored by industry, foreign governments or other sponsors may not be shifted to federally-sponsored agreements.

We repeat, the auditor's did not cite any instances of noncompliance with the preceding criteria, and the University is done a disservice by the implication that such did occur.

2. The following comments relative to specific findings provide important information that clarifies the University's processes regarding its approval and reconciliation processes, as well as comments concerning cost transfers.

A. "Cost transfers were required when Account Administrators and/or Principal Investigators were not diligent in initially assigning costs to the appropriate funding source. This included instances where costs were initially charged to projects when they occurred outside of the authorized project beginning and ending dates."

Response

Cost transfers occur for many reasons; to correct erroneous coding, to transfer costs to continuation grants, etc. In some cases they may even occur because of an error. Whether or not the error occurred because of a lack of diligence or for some other reason depends upon the specific situation. It must also be understood that in some cases a cost transfer may be a tool used to prevent situations which, if uncorrected, might result in an issue of noncompliance - a much more serious condition than that of a cost transfer.

It is equally important to understand that the cost transfer situations were 'mid-stream' conditions, that is, they occur at a point somewhere before the final review and reconciliation of a project's charges. All projects go through a final review process by the Sponsored Project Finance office to insure that all charges are proper, thereby avoiding instances of noncompliance.

The most valid point to be recognized is that none of the cost transfers resulted in improper charges, nor did the auditors cite instances of improper charges having occurred. Equally important is the fact that none of the cost transfers resulted in noncompliance with the cited federal regulations.

3. In the paragraph titled "Effect of Condition", the report states "Cost transfers and untimely monitoring of sponsored account budgets at the department level increases the risk that unallowable costs could be charged to funded projects and not be
detected in a timely manner. Similar instances of noncompliance have been reported in the preceding five audit reports."

Response

Again, the report implies there were instances of noncompliance. Yet none are cited. In no case was the University informed that there were illegal or improper charges to project funds. We object to the inference that the University had instances of noncompliance with federal regulations.

Auditor’s Remarks

We appreciate the University’s response to our finding.

A review of the past five audit reports shows that historically the University has concurred with our audit finding and has indicated that additional controls would be implemented to minimize the number of overdraft accounts.

As noted in our finding, the University changed its policy relating to cost transfers and overdrafts in November 1997 to further define department responsibility and stress the importance of preventing or minimizing transfers and overdrafts. This indicates that the University considers it necessary to improve in this area of operations. We will review the effect of the new policy in our next audit.

Applicable Laws and Regulations

Office of Management and Budget (OMB) Circular A-21, Section C.4, Allocable Costs, provides guidance in the area of allowable costs and cost transfers:

b. Any costs allocable to a particular sponsored agreement . . . may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.

c. Any costs allocable to activities sponsored by industry, foreign governments or other sponsors may not be shifted to federally-sponsored agreements.

The WSU Business Policies and Procedures Manual, Section 30.25 - Finance, further defines the required controls specific to the University:

Expenditure transfers are considered exceptions to standard policy. The Controller’s Office discourages manipulation of accounts by expenditure transfer. Personnel are to ensure that expenditures are initially assigned to the correct account.

Section 30.21 further states:

. . . Without specific approval from the central administration, overdrafts are considered unacceptable. Overdrafts are to be prevented by careful account monitoring . . .
The principal investigator and department chair are responsible for ensuring that expenditures on a sponsored account do not exceed monies received from the sponsor.