

**MINUTES**  
**FINANCE COMMITTEE**  
**UNIVERSITY OF SOUTHERN INDIANA**  
**BOARD OF TRUSTEES**  
**November 4, 1999**

The University of Southern Indiana Finance Committee met on Thursday, November 4, 1999, at 9:30 a.m. in Carter Hall of the University Center. Present were Trustees Tina Kern, G. Patrick Hoehn, and James Will Sr. Also attending were Vice President for Business Affairs Richard Schmidt; Assistant Vice President for Business Affairs Cynthia Brinker; and Business Office Director Michael Whipple.

There being a quorum present, Ms. Kern called the meeting to order at 9:40 a.m.

**1. REPORT ON UNIVERSITY AUDIT FUNCTIONS**

Richard Schmidt introduced Internal Auditor Diana Biggs who presented a report and information on the university's internal control structure. She noted that an audit plan will be presented to the committee by the end of the 1999-2000 fiscal year.

**2. REPORT ON HISTORY AND STATUS OF UNIVERSITY DEBT**

Michael Whipple gave a report on the history and status of university debt and provided the committee with a handout listing the Schedule of Bonded Indebtedness for the university.

**3. APPROVAL OF BUDGET APPROPRIATIONS, ADJUSTMENTS, AND TRANSFERS (Attachment A)**

On a motion by Mr. Will, seconded by Mr. Hoehn, the Budget Appropriations, Adjustments, and Transfers in Attachment A were approved.

There being no further business, the meeting was adjourned at 10:28 a.m.

**BUDGET APPROPRIATIONS, ADJUSTMENTS, AND TRANSFERS**

**Additional Appropriation – Income**

From: Unappropriated Current Operating Funds

To:	1-10210	Art Department Supplies & Expense	918
To:	1-10340	Chemistry Department Supplies & Expense	4,077
To:	1-13200	Library Capital Outlay	8,428
To:	2-20100	Student Programs Supplies and Expense	

From: Unappropriated Auxiliary Funds

To:	3-30200	University Center Supplies and Expense	
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From: Unappropriated Restricted Funds

To:	4-46100	USI/Epi-Hab Center Supplies and Expense	9,967
To:	4-46144	Sandia National Laboratories - Disaster Resistant Communities Personal Services Supplies and Expense	3,060 972
To:	4-46145	Southern Indiana Education Center - Distance Learning Personal Services Supplies and Expense	35,500 16,808
To:	4-46146	Indiana Department of Workforce Development – Technical Education Services Personal Services Supplies and Expense	10,765 39,198
To:	4-46151	U.S. Department of Education - CAMPUS (Childcare Access Means Parents in School) Program Personal Services Supplies and Expense	4,355 23,656
To:	4-46266	Indiana Humanities Council - New Communities Supplies and Expense	5,000
To:	4-46267	Indiana Humanities Council - Harmonist Reenactment Personal Services	1,000
To:	4-46268	Scripps-Howard - Electronic Classroom Supplies and Expense	62,100
To:	4-46357	Oregon State University - Endocrine Disruption Study Personal Services Supplies and Expense	18,068 11,932

To:	4-46412	March of Dimes - Prevention of Birth Defects Supplies and Expense	1,500
To:	4-46821	Ball Family - New Harmony Labyrinth Temple Restoration Supplies and Expense	27,500
To:	4-46912	Lilly Endowment - Murphy ADA Renovation Supplies and Expense	277,000

**Additional Appropriation - Fund Balance**

From: Unappropriated Designated Funds

To:	2-27520	Student/Faculty Research – Professor McNaughton Supplies and Expense	2,040
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From: Unappropriated Auxiliary Funds

To:	3-33950	Golden Tower Apartments Personal Services	133,560
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**Transfer and Appropriation of Funds**

From: 2-20110 Student Activities

To:	1-14101	Intramurals Supplies and Expense	1,000
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**UNIVERSITY of SOUTHERN INDIANA**  
**Schedule of Bonded Indebtedness**  
**June 30, 1999**

<b>ISSUE</b>	<b>Issued</b>	<b>Scheduled Retirement</b>	<b>Original Issue Amount</b>	<b>Amount Retired</b>	<b>Out-Standing</b>	<b>Scheduled Debt Service '99</b>	<b>Payment Frequency</b>
<b>FIXED RATE BONDS</b>							
Student Union Refunding Bonds (Series of 1985, 6.5% to 9.75%)	1985	2003	\$1,050,000	\$615,000	\$435,000	\$119,709	Semi-Annual
Student Fee Refunding Bonds (Series C of 1993, 3.15% to 5.8%)	1993	2000	4,205,000	2,980,000	1,225,000 (1)	717,048	Semi-Annual
Student Fee Revenue Bonds (Series D of 1993 2.25% to 5.8%)	1993	2015	24,678,101	2,625,000	22,053,101 (1)	1,678,161	Semi-Annual
Student Fee Bonds (Series E of 1995, 4.0% to 6.0%)	1995	2015	4,425,000	300,000	4,125,000	378,830	Semi-Annual
Student Fee Bonds (Series F of 1998, 3.55% to 5.02%)	1996	2013	15,280,000	1,875,000	13,405,000 (1)	1,317,868	Semi-Annual
<b>VARIABLE RATE BONDS</b>							
Student Housing Refunding Bonds 1996, 6.1875% (2) (5)	1996	2016	9,605,000	724,006	8,880,994	821,774	Monthly
Student Housing Refunding Bonds 1997, 6.1875% (2) (5)	1997	2009	2,504,000	385,874	2,118,126	292,291	Monthly
Student Housing Revenue 1997 (2) (5)	1997	2023	4,285,667	145,585	4,140,082	329,929	Monthly
Variable Rate Student Housing Bonds (Series 1998) (3) (4)	1998	2008	13,400,000	0	13,400,000	293,808	Quarterly
<b>OTHER</b>							
Guaranteed Energy Project Notes (6)	1997	2006	<u>2,127,318</u>	<u>433,355</u>	<u>1,693,963</u>	<u>280,511</u>	Semi-Annual
<b>TOTAL UNIVERSITY BONDED INDEBTEDNESS</b>			<b>\$81,560,086</b>	<b>\$10,083,820</b>	<b>\$71,476,266</b>	<b>\$6,229,929</b>	

(1) - Eligible for fee replacement funding.

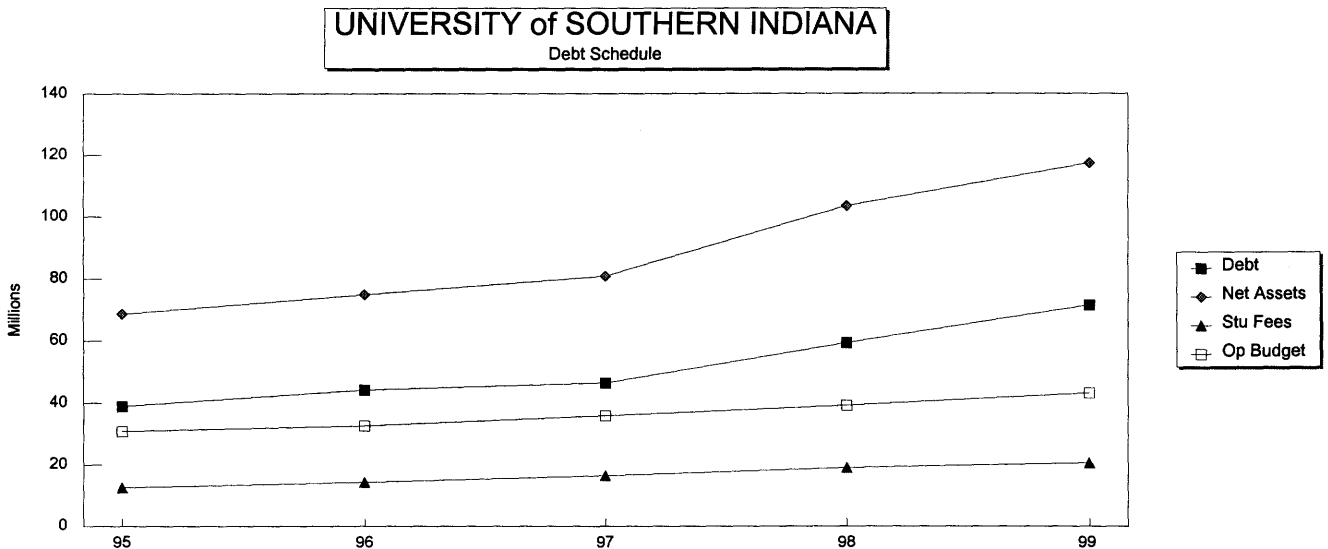
(2) - Rate fixed at issuance for a period of ten (10) years.

(3) - Rate set weekly-Interest payments only.

(4) - Principal payment at maturity (Planned refunding of bond issue when housing debt is consolidated).

(5) - Housing Bonds are held by a local banking consortium (National City Bank of Evansville act as trustee).

(6) - GEPC Notes are held by Civitas Bank and Old National Bank



# **University of Southern Indiana**

## **Internal Control Structure**

Prepared by Diana M. Biggs  
Internal Auditor

November 4, 1999

# UNIVERSITY OF SOUTHERN INDIANA

## INTERNAL CONTROL STRUCTURE

The internal controls of any organization can be grouped into two categories: accounting controls and administrative controls. The following definitions of each category were taken from the AICPA's *Codification of Auditing Standards and Procedures*, as reprinted in NACUBO's *College & University Business Administration, Administrative Service* manual:

"Accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, safeguarding assets and the reliability of the 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 internal auditing.

Administrative controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and relate indirectly to the financial records. They generally include such controls as statistical analysis, time and motion studies, performance reports, employee training programs, and quality controls."

Using the above as guidelines, the internal controls for the operational activities of the University of Southern Indiana are summarized below and on the following pages.

### ACCOUNTING CONTROLS

- I. ACCOUNTS PAYABLE AND OTHER LIABILITIES
  - a. Liability control accounts are reconciled with subsidiary records on a regular basis.
  - b. Accounts payable are maintained independently of cash receipts and disbursement functions.
  - c. Invoices, purchase orders, and receiving reports are compared prior to payment.
  - d. Accounts payable and other liability adjustments are supported by documentation that has been properly reviewed and approved.
  - e. Procedures exist to facilitate payments to vendors within a discount period.

EXCEPTION: Invoices up to \$5,000 are now paid by negative confirmation if a purchase order exists and the invoice amount agrees (within reason) with the purchase order amount. The fiscal agent is given 10 days to give a reason why the vendor should not be paid.

RISK: Minimal, unless the purchase order was processed online with negative confirmation. See VI. Purchases (a). This is an area requiring an audit to determine if adequate detective controls are in place.

- f. Procedures exist to prevent duplicate payments and payments for damaged goods.
- g. Procedures exist to ensure proper credit for returned purchases.
- h. Debit balances in liability accounts are reviewed regularly and reclassified at year end if appropriate.
- i. Year end procedures ensure inclusion of all items purchased during the period.

## II. ACCOUNTS RECEIVABLE

- a. Accounts receivable are maintained independently of cash receipts and disbursement functions.
- b. Bad debt write-offs, credit memos and allowances are approved independently of processing, recording, and collecting.
- c. Individual accounts are independently reconciled with the control account on a regular basis.
- d. Aged accounts, and accounts with credit balances, are reviewed periodically.
- e. Account receivable balances are independently confirmed on a periodic basis.
- f. Measures exist that encourage prompt collection of student accounts receivable.
- g. Procedures exist for follow-up and collection of delinquent accounts.
- h. Disputed liabilities are handled by persons other than those receiving payment.
- i. Completed invoices are controlled and properly accounted for.
- j. Adequate control exists over the mailing of statements to prevent interception prior to mailing.

## III. CASH DISBURSEMENTS

### Check Disbursements

- a. Adequate separation of duties exist between the approval and payment functions.
- b. Only printed, prenumbered checks are used.
- c. All checks are made payable to specific payee.
- d. Advance signing of checks is prohibited.
- e. All disbursements are properly authorized and supported by appropriate documentation, which is reviewed before checks are issued.
- f. All bank accounts and check signatures are properly authorized; check signers are adequately bonded.
- g. Procedures provide for immediate bank notification when an authorized signer of checks changes duties or resigns.
- h. The supply of blank checks is adequately controlled.
- i. Voided checks are properly mutilated and held for inspection; old outstanding checks are voided after one year.
- j. Vouchers are prepared for all expenditures, including wire transfers and ACH debit entries.
- k. Facsimile signature plates are adequately secured and under proper control.
- l. A firm procedure establishes the conditions under which disbursements can be made.
- m. Each bank account is under a separate ledger control.
- n. Bank statements are delivered unopened directly to the reconciler.
- o. Bank accounts are reconciled monthly by a person independent of cash functions.
- p. The sequence of check numbers are accounted for when reconciling bank accounts.

- q. Endorsements on cancelled checks are periodically examined, and paid checks are randomly scrutinized for suspicious and irregular features.

Petty Cash Disbursements

- a. Petty cash funds are properly authorized, the responsibility of only one person, properly safeguarded, and controlled by an imprest system.
- b. Petty cash vouchers are signed by the person receiving cash, prepared in ink and required for each expenditure, and supported by receipts verifying the amount disbursed.
- c. Reimbursement vouchers, to replenish fund, are approved by a responsible employee who has no daily cash handling responsibilities.
- d. Vouchers and attachments are properly cancelled to preclude reuse.
- e. Reimbursements are made payable to the fund custodian.
- f. The custodian is prohibited from handling more than one petty cash fund.
- g. Petty cash funds are restricted to expenditures not exceeding a fixed amount; variances to that amount require special approval.
- h. Petty cash fund balances are adequate for the activity's needs.
- i. The funds are verified by surprise counts.

IV. CASH RECEIPTS

- a. Cash receipts are maintained independently of accounts receivable, accounts payable, and check disbursement functions.
- b. Cash receipts are promptly recorded using prenumbered receipts, on-line computer numbered receipts, or cash registers by an individual designated to receive cash.
- c. Restrictive endorsements are placed on incoming checks as soon as they are received.
- d. Cash register/cashiering procedures reflect proper daily check-out and documentation.
- e. Mail is opened by someone independent of cashiering and accounts receivable duties.
- f. Banks and institutional cashiers are instructed not to cash checks made payable to the University.
- g. Customer receipts (computer generated or multi-copy hand written) are dated, numerically controlled, and identifiable to a specific cashier.
- h. Employees connected with the cash receipts function rotate duties periodically.
- i. Cash overages/shortages for each cashier are maintained, recorded on the books, and reviewed regularly.
- j. Cash receipts are posted daily to income or subsidiary accounts receivable records.
- k. Cashiers are provided separate cash drawers to establish accountability. These drawers are locked during the cashier's absence.
- l. Cash receipts are deposited intact daily; deposits are verified by means of a bank receipt.



- m. Adequate facilities are provided for the safeguarding of cash prior to deposit.
- n. Safe combinations and keys to cash boxes/files are restricted to an essential number of employees; combinations and locks are changed at each personnel change.
- o. Checks returned by the bank are posted to subsidiary accounts receivable records; notification letters are sent to the payor requesting prompt redress.
- p. All persons handling cash are adequately bonded.

NOTE: The above cash receipts controls apply to the Bursar/Cashier department. They may or may not be in place at all locations that handle cash.

## V. INVESTMENTS

- a. An investment policy has been established by the Board of Trustees.
- b. Changes in types of investments in the portfolio are approved in accordance with the investment policy.
- c. Investments are purchased and sold only on proper authorization.
- d. Original papers evidencing purchases and sales are properly filed.
- e. An independent safekeeping agent is utilized; investments are either in safe deposit box or in the University vault.
- f. All investment documents are under the control of a responsible official as custodian.
- g. All investment documents are registered in the name of the University.
- h. A record is maintained for each investment, including cost, description, purchase date, maturity date, interest rate, and identifying number.
- i. A record of investment income is maintained, and accruals are recorded as investment income is earned.
- j. Investments are examined periodically and reconciled to controlling accounts.
- h. Earnings are reconciled periodically with published financial records.
- i. Confirmations are obtained from outside holders of investment documents.
- j. All persons having access to investments are adequately bonded.

## VI. PURCHASES

- a. Purchases, other than those from petty cash, are properly approved; confirming (after the fact) purchase orders are properly used and controlled.

EXCEPTION: Four departments have been granted online requisition processing without positive confirmation of approval from fiscal agent. An assumption is being made that the purchase has been approved, and a hard copy bearing the fiscal agent's signature is maintained within the department. RISK: From \$600 to \$5,000 per requisition because of a change in Accounts Payable procedures. A/P now processes payments against P.O.s up to \$5,000 with negative confirmations. See I. Accounts Payable (e).

- b. Adequate separation of duties exist in connection with controlling blank purchase orders, placing orders with vendors, approving vouchers for payment, processing approved vouchers, and disbursing funds.

- c. Purchasing policies are defined by written procedures.
- d. Policies provide for the assignment of responsibility for final purchasing decisions at the appropriate level.
- e. All purchase orders are computer numbered and accounted for.
- f. Leasing procedures insure compliance with statutory purchasing regulations, as well as University rules and regulations.
- g. A system of competitive bidding is used.
- h. Receiving reports are compared in detail with purchase orders and vendor invoices.
- i. Blanket orders and long-term contracts are under adequate control.
- j. There is a policy statement with regard to conflicts of interest, including employee-vendor relationships.

## VII. PAYROLL

- a. Policies regarding time worked, vacations, sick leave, holidays, and other employee benefits are published in the USI handbook.
- b. Written approval is required for employee additions and deletions from the payroll, changes in pay rates, and payroll deductions.
- c. Time sheets and pay vouchers are approved by someone in authority.
- d. There is a segregation of personnel and payroll functions.
- e. Complete personnel records are maintained outside the payroll section.
- f. Procedures exist to ensure that all employees are bona fide, and that employees do not receive more than the authorized salary payment.
- g. Payroll checks are either direct deposited to employee's bank or distributed by the Cashier's office.
- h. Identification is required before receiving paycheck from the cashier.
- i. Procedures exist for the control and disposition of any old, outstanding payroll checks.
- j. Payroll office employees are cross-trained on many duties to cover absences.
- k. Vacation, sick leave and compensating time off are properly documented and controlled.
- l. The payroll bank account is maintained on an imprest basis and reconciled by someone having no payroll duties.
- m. Reconciliation procedures include random examination of endorsements on checks.
- n. Blank payroll checks are adequately controlled.
- o. Procedures exist to prevent employees from receiving pay other than through properly approved and processed payroll procedures for services performed.

## VIII. INFORMATION TECHNOLOGY SERVICES

- a. Backups of all systems are performed on a daily basis. A copy of the backup is maintained in secure locations away from the computer center.
- b. The computer and its peripherals are guarded against environmental damage, unauthorized personnel, and theft.

- c. There is a procedure in place and forms used for management approval of changes made to the computer processing programs.

EXCEPTION: This process has been waived during emergency situations, i.e. registration for classes. RISK: Not yet determined.

- d. A protected electronic transaction log is produced for all information entered into the computerized accounting system.
- e. Input controls: procedures exist to avoid duplication of transactions and assurance that all transactions have been entered and accounted for. Edit checks are performed on information entered by user.
- f. Output controls: users match system-generated counts of transactions processed or other system-generated information to source documentation or reports produced during the original entry of information.
- g. Processing controls: procedures exist to guard against potential errors for calculating, summarizing, categorizing, and updating.
- h. A written disaster recovery plan exists and is currently up-to-date.

EXCEPTION: The plan has not been tested. RISK: Not yet determined.

- i. Logical security: password security is active; passwords are nondisplaying and are at least 6 characters in length; network passwords are changed every 60 days -- mainframe every 90 days; user IDs are cancelled when an employee terminates or is transferred out of a department; terminals automatically logoff after 20 minutes of inactivity; users are not allowed to sign on to more than one device at a time; and the system inactivates the user ID after three consecutive incorrect sign-on attempts.

EXCEPTION: Not all of the logical security controls are as strict as is generally recommended by most internal control standards. Recommended passwords should require both numbers and letters in their makeup and should be changed every 30 days. We found that the use of numbers and letters is encouraged, but not required. Also, changing passwords every 30 days increased the risk that written passwords would be posted in conspicuous places and increased the work load of the computer center personnel in resetting passwords when employees couldn't remember the current one.

RISK: Believed to be minimal.

## IX. EQUIPMENT

- a. Capital expenditures are authorized by appropriate officials.

EXCEPTION: See VI. Purchases (a)

- b. Equipment acquisitions are originated by requisitions that show description, estimated cost, and accounts to be charged. A justification for the purchase is not required.
- c. Equipment additions are controlled by a budget. Variations between budget and actual costs require fiscal agent approval.
- d. A policy exists that differentiates between expenditures to be capitalized and those to be expensed.

- e. Identifying information (tag or bar code) is placed on equipment after it is installed/placed in its intended location and removed from equipment prior to disposal.

EXCEPTION: Better control would result if all equipment were tagged upon receipt from the vendor. This is impossible at this time because there is no central receiving facility.

RISK: Unknown and undeterminable.

- f. Detailed subsidiary records of equipment are maintained, reconciled to the general ledger by fund, and adjusted when equipment is disposed of or transferred.
- g. Physical inventories of all equipment are taken periodically. An inventory of large dollar items is taken at least annually.
- h. Inventories are tested periodically by an official having no responsibility for the inventory.
- i. A computerized preventive maintenance program is used to schedule and identify inspections and maintenance for equipment.
- j. Training sessions are held to inform staff on the proper use of tools, equipment and systems. The equipment is stored in a secured location or locked to prevent unauthorized use.
- k. A procedure exists of identifying and disposing of unused or obsolete equipment. Equipment is not disposed of unless asset control personnel authorizes the disposal and the appropriate paperwork completed.
- l. The sale, transfer, scrapping or dismantling of equipment requires written approval. Scrapped equipment is placed in metal material recycling bins for sale to the scrap yard. The serial number, model no. and other identifying information is recorded on a work request and filed.

EXCEPTION: Sometimes air conditioners and appliances (from student housing, primarily) are scrapped without approval.

NOTE: The above policies and procedures apply to equipment under the control of Purchasing & Risk Management and the Physical Plant. Different policies and procedures may be in place for the equipment controlled by the Computer Center. That department was not surveyed at this time.

## X. INVENTORIES

Material/Equipment Storeroom – There is no separation of duties in this area. One person can order, receive, record, store and issue items from the storeroom. These functions should be split among two or more persons. When that is not feasible, compensating controls should be in place to provide some assurance that unneeded material is not being ordered and that sensitive material is not being converted to personal use. Some of the compensating controls in this area include the following:

- a. Key access to the storeroom is limited; a record is kept of who has keys.
- b. Materials issued from the storeroom are assigned to a sequentially numbered work order.

- c. A computerized perpetual inventory system is updated from invoices upon receipt of materials from vendors and from work orders when materials are issued.
- d. Small tools (expensive) are maintained under lock and key and must be checked out before use.
- e. A partial inventory count on stock items is taken each week to determine reorder needs. A physical count of large dollar items (> \$100) and a spot check of small dollar items is made at least annually.

USI Bookstore – A perpetual inventory system was installed a few years ago to assist in tracking the large volumes of inventory that flows in and out of the bookstore each semester. The system is capable of tracking all types of inventory – textbooks, supplies, sundries, etc. – but it is being used for textbooks only. However, a clean beginning inventory has never been established, so the system cannot be relied on for determining the textbook inventory value or the quantity of books on hand. If the perpetual inventory system were operating to full capacity, and a clean beginning balance established....

- a. physical counts could be taken throughout the year on small sections of inventory without closing the store;
- b. discrepancies in shelf count and inventory records could be identified as shrinkage; other discrepancies with book value could be identified as accounting issues (i.e. markups, markdowns, discounts, or the retail method of accounting); and
- c. surprise counts could be taken periodically by persons not responsible for the bookstore inventory.

## ADMINISTRATIVE CONTROLS

### I. GENERAL

- a. The University has a statement of mission and objectives.
- b. The University is governed by a Board of Directors who are appointed by the Governor of the State of Indiana.
- c. There is a current organizational chart in use which reasonably fixes the responsibility of key personnel.
- d. A formalized internal policy and procedures manual exists and is updated regularly.
- e. Written job descriptions exist for all employee positions.
- g. A budgetary control system is in place and monitored regularly.
- h. Financial reports provide complete and timely information.

### II. MANAGEMENT REVIEW

- a. All major channels of communication are utilized effectively.
- b. Fiscal authority has been formally delegated to specific management personnel.
- c. Fiscal responsibility exists at all management levels.
- d. Employees are evaluated regularly.

- e. Managers/supervisors review the evaluations with their employees.
- f. Managers/supervisors are required to suggest measures to correct weaknesses or inadequacies.
- g. Management provides in-house employee training and educational programs that are job oriented.
- h. Management encourages participation in continuing professional education activities provided by outside organizations.
- i. Management promulgates and upholds ethical practice and behavior in all endeavors on behalf of the University.

No list of internal controls can be all-inclusive, nor can it reveal all the dimensions of any statement regarding internal control. Even though the above list represents the standard operating controls and practices of this university and its employees, there will occasionally be deviations from these controls and practices. Sometimes the deviations are warranted by the circumstances; sometimes by thoughtlessness. To our knowledge, there has not been a willful violation of internal controls that resulted in fraud or personal gain.

**AGENDA**

**FINANCE COMMITTEE**

**UNIVERSITY OF SOUTHERN INDIANA  
BOARD OF TRUSTEES**

**November 4, 1999**

- 1. REPORT ON UNIVERSITY AUDIT FUNCTIONS**
- 2. REPORT ON HISTORY AND STATUS OF UNIVERSITY DEBT**
- 3. APPROVAL OF BUDGET APPROPRIATIONS, ADJUSTMENTS, AND TRANSFERS (Attachment A)**