

***State of New York
Office of the State Comptroller
Division of Management Audit
and State Financial Services***

**STATE UNIVERSITY OF NEW YORK
COLLEGE AT CORTLAND**

**SELECTED FINANCIAL MANAGEMENT
PRACTICES**

REPORT 99-S-13



H. Carl McCall
Comptroller



State of New York Office of the State Comptroller

Division of Management Audit and State Financial Services

Report 99-S-13

Dr. John W. Ryan
Chancellor
State University of New York
State University Plaza
Albany, NY 12246

Dear Dr. Ryan:

The following is our audit report on the results of selected financial management practices at the State University College at Cortland.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law. Major contributors to this report are listed in Appendix A.

*Office of the State Comptroller
Division of Management Audit
and State Financial Services*

December 30, 1999

Executive Summary

State University of New York College at Cortland Selected Financial Management Practices

Scope of Audit

The State University of New York (SUNY) College at Cortland (College) is one of 13 colleges of arts and sciences in the SUNY system. Located in Cortland, New York, the College offers 45 undergraduate degree programs and 24 graduate programs. During the Spring 1999 semester, the College had 4,612 undergraduate students and 1,198 graduate students. College expenditures during the 1998-99 State fiscal year totaled about \$44.6 million.

For the 12 month period ended June 30, 1999, the College collected over \$40 million from tuition, fees, room rent, meal plans, and other sources and reported \$1.2 million of student account receivables. The College's Bursar's Office deposited about \$28 million of this revenue into the College's local depository bank. The remaining revenue, primarily student financial aid, is deposited directly into an account maintained by SUNY System Administration.

Our audit addressed the following question about selected financial management practices at the College for the period July 1, 1996 through June 30, 1999:

- Has College management established an effective system of internal control over College revenues and equipment assets?

Audit Observations and Conclusions

We found that College managers had not established a strong control environment for revenue and equipment. They did not implement recommendations to correct some of the significant control deficiencies cited in our previous audit reports and a recent review by the University Auditor. College management did not conduct formal risk assessments, did not develop necessary control procedures to reduce risks, and did not provide adequate training or guidance to some employees with significant roles in the control system. In addition, management has not monitored the effectiveness of the existing system of control over College revenues and equipment. We recommend that College officials further develop and maintain an operating style that formally recognizes and supports the control components of risk

assessment, control activities, communication, and monitoring for revenue and equipment. (See pp. 5-6)

College officials responded that they take their stewardship of State resources very seriously, but they acknowledged the need to correct and enforce control procedures. They stated that budget cuts have decreased staff resources for both the revenue and equipment control functions, while other factors have increased the staff workloads. They also noted that their staff did do many things right, including collecting large amounts of money reliably and treating the College's students courteously and efficiently. While we commend officials for the many things at the College that work well, we believe that College management needs to assign a higher priority to its responsibilities for implementing and maintaining an effective system of internal control over both revenues and equipment. (See p. 6)

We found that the functional organization of the Bursar's Office does not provide for appropriate separation of duties among staff to ensure effective control over revenue collection and processing. In addition, the Bursar's Office did not have adequate controls over hundreds of undistributed student refund checks, thereby exposing them to significant risk of loss or undetected theft. Furthermore, College staff had not successfully reconciled College revenue accounting records to the monthly general checking account bank statements for the past nine months. Prompt bank account reconciliations are important for detecting internal accounting errors, bank errors, and fraudulent check transactions. In addition, some College employees have computer access authorizations that permit functions that are incompatible with their other job duties, and we identified other control weaknesses that lessen the security over computer access. These control weaknesses increase the risk that the integrity of student revenue and collection data could be compromised. We made several recommendations to address the internal control weaknesses in these and other areas relating to revenue. (See pp. 7-12)

In addition, we found that College managers provided little guidance and oversight to the equipment control function. As a result, the College's equipment manager had not conducted an effective physical inventory of equipment, department-level control over equipment was inconsistent, and controls over the addition of new items and disposition of old items to the inventory were weak. We tested data recorded on the College's equipment record and found significant rates of errors and omissions, including equipment items that could not be located or otherwise accounted for. The results of our sampling and testing of the

College's equipment record suggest that this record may not be sufficiently reliable as a management tool. College officials told us they are taking action to strengthen controls over equipment assets. Our report contains recommendations to improve control over equipment. (See pp. 13-15)

**Comments of
SUNY Officials**

SUNY officials agree with our recommendations and indicate steps that have been or will be taken to implement them.

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Major Contributors to This Report	
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Comments of SUNY Officials	
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Introduction

Background

The State University of New York (SUNY) College at Cortland (College) is one of 13 arts and sciences colleges in the SUNY system. Located in Cortland, the College offers 45 undergraduate degree programs and 24 graduate programs. During the Spring 1999 semester, the College had 4,612 undergraduate students and 1,198 graduate students. College expenditures during the 1998-99 State fiscal year totaled about \$44.6 million.

For the 12 month period ended June 30, 1999, the College collected over \$40 million from tuition, fees, room rent, meal plans, and other sources and reported \$1.2 million of student account receivables. The College's Bursar's Office deposited about \$28 million of this revenue into the College's local depository bank. The remaining revenue, primarily student financial aid, is deposited directly into an account maintained by SUNY System Administration.

Since 1985, the College has been using an integrated database computer system called Triton for student registration and revenue accounting. At the time of our audit, the College was undergoing a major conversion to a new database computer system called Banner. Banner training has been underway for College staff, and Banner was used for pre-registration and student billing for the Fall 1999 semester. In addition, the College uses SUNY's Property Control System, a statewide, computerized database system, to account for equipment items that cost over \$1,500 and all computer equipment items that cost over \$500.

Audit Scope, Objectives and Methodology

We audited selected financial management practices at the College for the period July 1, 1996 through June 30, 1999. The objectives of our financial related audit were to evaluate whether management had established an adequate internal control environment and effective internal control procedures over revenues and equipment. To accomplish these objectives, we interviewed College staff and officials; reviewed relevant policies, procedures, rules and regulations; and examined appropriate records. To help us assess management's accountability and control over student revenues and equipment assets, we used database diagnostic software to examine both the College's revenue transaction database and the College's equipment database for the year ended June 30, 1999. We obtained this information from both SUNY System Administration and from the College's administrative computing center. As part of our review of revenue, we examined the controls over access to computerized student account data, isolated

certain adjustments that were made to student account balances, and examined supporting documentation for a sample of adjustments. We also selected and we tested random and judgmental samples of College disbursement checks and equipment records. In addition, we reviewed the status of findings and recommendations related to internal controls from our audit reports that were issued in 1980 (Report AL-ST-35-80), 1986 (Report 85-S-156), and 1990 (Report 89-S-118) and from a report issued by the University Auditor in 1997.

We conducted our audit according to generally accepted government auditing standards. Such standards require that we plan and do our audit to adequately assess those operations of the College which are included in our audit scope. Further, these standards require that we understand the College's internal control structure and compliance with those laws, rules, and regulations that are relevant to the College's operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on those operations that we have identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, we devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Internal Control and Compliance Summary

Our consideration of the College's internal control structure focused on revenue and equipment controls. We identified certain weaknesses in these controls which we identify in the sections of this report entitled "Revenue Control" and "Equipment Control."

Response of SUNY Officials to Audit

A draft copy of this report was provided to College and SUNY System Administration officials for their review and comment. Their comments have been considered in the preparation of this report and are included as Appendix B.

Within 90 days after the final release of this report, as required by Section 170 of the Executive Law, the Chancellor of the State University of New York shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Internal Control Environment

The Office of the State Comptroller (OSC) has issued Standards for Internal Control in NYS Government to guide government employees in carrying out their responsibilities to implement a good internal control system. Those standards address five specific control components: control environment, communication, assessing and managing risk, control activities, and monitoring. Control environment is the attitude toward internal control and the control consciousness established and maintained by the management and employees of an organization. It is a product of management's philosophy, style, and supportive attitude, as well as the competence, ethical values, integrity, and morale of the organization's people. Control environment is unique because of its pervasive influence on all the decisions and activities of an organization. A positive internal control environment is the foundation for all other standards of internal control, providing discipline and structure.

We concluded that a strong control environment has not existed in the past at the College with respect to certain aspects of revenue and equipment. We reached this conclusion because management had not demonstrated a sufficient level of control consciousness to establish the necessary communication, risk management, control activities and monitoring as follows:

- Management neither implemented recommendations to correct certain revenue control and equipment deficiencies that were made in our prior audit reports issued in 1980, 1986, and 1990, nor implemented similar control recommendations made by the University Auditor in 1997.
- Management neither conducted formal risk assessments, nor developed necessary control procedures to ensure that revenue and equipment assets would be adequately accounted for and safeguarded.
- Management did not provide training or communicate specific job duties or expectations to the employee designated as the College's part-time Equipment Manager or to other employees who should have a role in controlling equipment assets. Management also did not develop local operating procedures or communicate specific expectations for employees with key revenue control duties.

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- Management did not adequately monitor the effectiveness of the existing system of control over revenues and College-owned equipment. Responsible managers were not aware of either a large number of unclaimed refund checks that had accumulated at the Bursar's Office or significant equipment record keeping problems.

College officials responded that they take their stewardship of State resources very seriously, but they acknowledged the need to correct and enforce control procedures. They stated that budget cuts have decreased staff resources for both the revenue and equipment control functions, while other factors have increased the staff workloads. They also noted that their staff did do many things right, including collecting large amounts of money reliably and treating the College's students courteously and efficiently. While we commend officials for the many things at the College that work well, we believe that College management needs to assign a higher priority to its responsibilities for implementing and maintaining an effective system of internal control over both revenues and equipment. The following sections of this report detail our observations about College control procedures for revenue and equipment.

Recommendations

1. Further develop and maintain an operating style and philosophy that formally recognizes and supports the control components of risk assessment, control activities, communication, and monitoring for revenue and equipment.
2. Demonstrate management support toward good internal control by being responsive to information developed through prior external audits.

(College and SUNY System Administration officials generally agree with recommendation number 1 and recommendation number 2.)

Revenue Control

For the 12 month period ended June 30, 1999, the College collected over \$40 million from tuition, fees, room rent, meal plans, and other sources and reported \$1.2 million of student account receivables. The College's Bursar's Office deposited about \$28 million of this revenue into the College's local depository bank. The remaining revenue, primarily student financial aid, is deposited directly into an account maintained by SUNY System Administration. During our audit period, the College used the Triton computer system for student revenue accounting and general ledger accounting. At the time of our audit, the College was converting to a new computer system, Banner. Similar to Triton, Banner, which affords on-line access to update and to view information, contains all student information including course registrations, student billings and collections, financial aid, refunds, room assignments, meal plans, and holds on student accounts. Both Banner and Triton are designed to restrict user access to various data screens and to various functions such as changing student accounts. Our audit addressed the Triton system that was in place at the time of our audit. In implementing the Banner system, College officials must ensure that the findings we identified are addressed in the new system.

We found management had not established adequate controls over revenues. For example, we found that the functional organization of the Bursar's Office does not provide for appropriate separation of duties. In addition, we noted internal control weaknesses over student refund checks, bank account reconciliations, and access to computerized student account records. We designed testing to obtain reasonable assurance that significant losses had not occurred because of these weaknesses. Our testing did not identify any refund checks that were improperly negotiated or improper adjustments to student account balances.

Separation of Duties

To reduce the risk of error, waste or wrongful acts and the risk of such acts not being detected, no one individual should control all key aspects of a transaction or event. Rather, duties and responsibilities should be assigned to a number of individuals to ensure effective checks and balances exist. However, we found that duties were not adequately separated among the staff of the Bursar's Office, as follows.

Bursar's Office employees who process cash receipts and adjust student account balances also have unrestricted access to refund checks, including those that remain unclaimed for a long period of time. As

a result, there is considerable risk that these employees could, without timely detection, substitute cash receipts with unclaimed refund checks, or could make a fraudulent student account adjustment in order to produce and obtain a refund check that could be misappropriated later. Our testing did not identify any suspicious endorsements, unsupported refund transactions, or cash substitutions among the transactions that we examined.

Two of our prior audit reports (89-S-118 and 85-S-156) recommended that the College reassign the check distribution process to employees who do not have cash receipt processing or record keeping duties. College management's response to both audits was that they did not have sufficient staff resources to implement the recommendations. However, if the check distribution function cannot be adequately segregated, management should implement compensating controls. Such controls include using supervisors who are independent of other cash processing duties to periodically review the support for a sample of refund transactions. Also, paid checks could be routinely examined for suspicious endorsements as part of the bank account reconciliation process. College management had not formalized such compensating controls to address the problems posed by not being able to separate duties.

Bank accounts should be independently reconciled by an employee who does not have access to cash receipts or disbursements. We found that the employees who reconcile the general checking account also have incompatible cash processing and record keeping functions.

An employee who is not otherwise involved in processing cash should do the daily cash reconciliation as a check on the work of the cashiers who collect and record the receipts. We noted that a Bursar's Office cashier reconciles daily cash receipts to the bank deposits. This lack of separation of duties becomes more significant because we found that mail remittances are not restrictively endorsed or recorded before they are given to the cashiers for processing.

Employees who collect and process cash should not be able to adjust charges on student accounts receivable records. Ideally, the Bursar's Office should collect payments, and other College departments should be responsible for adjusting charges. For example, adjustments to tuition charges that result from changes in the number of credit hours taken by students should originate only in the Registrar's Office, and adjustments to room charges should originate only in the Residence Life Office. However, five of the six Bursar's Office employees who collect and record student payments, also have computer authorization

levels that allow them to adjust certain charges on the student account records. In addition, two other administrative employees who occasionally help out in the Bursar's Office also have computer authorization to both record cash receipts and to adjust student charges. Specifically, all of these employees can adjust student accounts to eliminate charges for various billed fees and can adjust tuition charges. We examined the supporting documentation for a sample of 25 of 749 student account adjustments made for the period July 1, 1998 through June 23, 1999 to verify that the adjustments were proper. Although our sample did not identify any transaction that was unsupported or inappropriate, the combining of incompatible processing functions lessens management's assurance that all adjustments are proper.

Undistributed Student Refund Checks

The College's Bursar's Office routinely produces refund checks for all student accounts with a credit balance. The Bursar's Office stores the signed checks in a box to await pick up by the student who is due the refund. At the time of our audit, the box contained hundreds of refund checks on hand for extended periods of time. As of March 31, 1999, the College's outstanding check list included 524 checks, totaling more than \$179,000, that had been outstanding more than three months. Of these, 100 checks, totaling \$5,572, had been outstanding over 15 months with some dating back to 1996. Having so many refund checks available for so long greatly increases the risk of loss or theft of these assets. It appears that the reason for this risk exposure is that College management has not established written procedures for properly controlling and distributing the checks. For example, there were no requirements for routinely notifying students that they have checks waiting, for mailing unclaimed checks to the students, or for redepositing checks that remain unclaimed. Moreover, the stored checks are easily accessible to all Bursar's Office employees, including those who process cash receipts and adjust student account balances.

Reconciliations

Prompt bank account reconciliations are important for detecting staff errors, bank errors, and fraudulent check transactions. In 1997, the SUNY University Controller issued a memorandum to SUNY campus administrators noting that check fraud activity had increased substantially due to changes in Federal banking regulations and the availability of low-cost, high-quality document reproduction technology. Prompt detection of fraudulent activity is important so that timely action can be taken to minimize exposure to additional losses.

The Bursar's Office did not have written policies, procedures, or specific expectations for the timely completion of bank reconciliations,

and completed reconciliations were not reviewed by responsible managers. As of June 4, 1999, College staff had not successfully reconciled College records to the previous nine monthly general checking account bank statements. After we discussed these findings with the responsible College managers, College staff were assigned to bring the reconciliations up-to-date.

Also, the people responsible for reconciling the checking account should examine check signatures and endorsements to detect any unusual items that might indicate an improperly authorized or improperly negotiated check. The employees who currently reconcile the checking account do not examine the endorsements.

College officials told us that staff had fallen behind on the bank account reconciliations because of increased workload demands caused by the College's conversion to Banner, a vacancy in one of the clerical positions, and the inexperience of two recently hired clerical employees. One of our prior audit reports (89-S-118) also identified that the College checking account was not being reconciled in a timely manner. College management needs to determine ways to improve the timeliness and efficiency of the reconciliation, such as the use of computerization to prepare outstanding check lists, realignment of reconciliation duties to other employees, etc.

Access to Computerized Student Account Records

Computer access security controls should provide reasonable assurance that computer resources are protected against unauthorized modification, disclosure, loss or impairment. This is accomplished by providing users with only the access they need to perform their duties; limiting access to sensitive resources, such as security software programs; and by not establishing access that permits employees to perform incompatible functions. At the College, some employees have computer access authorizations that permit functions that are incompatible with their other job duties, and we identified other control weakness that lessen security over computer access. These control weaknesses represent a significant risk that the integrity of student revenue and collection data could be compromised.

Management should establish effective controls to restrict the access to on-line computer functions to authorized persons, for authorized purposes. Computer access controls include: the use of user IDs and passwords to restrict transaction functions to employees based on their job duties; restricting terminals to the appropriate functions for the users at that location; system programming that limits invalid login attempts and disconnects unattended terminals; and routine monitoring of security

violation logs to detect attempts to gain unauthorized access to the on-line system. Similar to our audit observations in 1990, we identified several weaknesses related to access to sensitive College revenue records.

The system security administrator for the College's computerized revenue accounting system has attempted to control user access. However, College management has not established comprehensive policies and procedures for determining and monitoring access levels and otherwise controlling computer access. For example, there is no set policy or procedure for reviewing the continued appropriateness of access levels once a user ID has been assigned, and there is no procedure to ensure that computer access is canceled for employee terminations and transfers. We found that the user ID and password for the prior Bursar, who resigned 18 months prior to our audit, were still on the system. Although the user ID and password had not been used to initiate any transactions, they could have been used to process revenue transactions. We also found that the user ID for a terminated employee in the Registrar's Office had been used by a new employee to process 228 transactions after the former employee left State service. Employees should use individually assigned user IDs to provide proper accountability.

We also observed that there is no set policy addressing the use of generic user IDs which limit management's ability to determine who initiated a transaction. We identified 21 generic user IDs on the system. For example, there was a generic user ID available for use by all staff in the Bursar's Office and one available for use by employees in the Registrar's Office. Of the 21 generic user IDs we identified, 7 had authority to process revenue transactions. We also noted that security violation logs are not printed and reviewed, and that the computer system has not been programmed to limit the number of invalid attempts to sign on or to disconnect idle terminals.

Recommendations

3. Adequately separate duties within the Bursar's Office to address the control weaknesses discussed in our report. Where adequate separation of duties is not practical, implement compensating controls.
4. Restrictively endorse mail remittances upon receipt.
5. Establish policies and procedures that restrict access to refund checks and ensure timely distribution or redeposit of unclaimed checks.
6. Establish policies and procedures for performing bank reconciliations in a timely, accurate and efficient manner, including the requirement that check signatures and endorsements be reviewed during the reconciliations.
7. Establish comprehensive policies and procedures for strengthening access controls over computerized revenue records by:
 - requiring that established user IDs be periodically reviewed to determine that they continue to be appropriate;
 - deleting in a timely manner those user IDs that pertain to former employees;
 - discontinuing the practice of using generic user IDs; and
 - providing for the review and follow up of security violation logs, limiting the number of potential invalid sign-on attempts, and disconnecting computer terminals that remain connected, but idle for predetermined periods.

(College and SUNY System Administration officials generally agree with recommendations number 3 through number 7.)

Equipment Control

Consistent with guidance from SUNY System Administration, College policy is to centrally record and control individual equipment items that cost over \$1,500 and all computer equipment items that cost over \$500. The College uses SUNY's Property Control System (PCS) to account for these assets. As of June 9, 1999, the PCS listed 3,858 College equipment items with a value of \$11.8 million. Forty-four percent of the items were categorized as computer equipment costing between \$500 and \$1,500.

College management is responsible for ensuring that equipment assets are accounted for and utilized efficiently. Our audit of College equipment practices and control procedures shows that College management has not adequately fulfilled these responsibilities. Most of the weaknesses we found in our current audit had been reported in previous audits of the College. The following summarizes the weaknesses with control procedures and practices:

- Among the five College departments with the highest recorded equipment costs according to the PCS, we identified widely varying levels of equipment accountability and control. One department, Physical Education, had no department-level controls over equipment. Another department, Classroom Media Support, had assigned equipment control to a designated staff person, took physical inventories to verify the location of equipment, and maintained the computerized record of equipment.
- The College has not developed and communicated adequate written equipment control procedures specific to the campus.
- The College has designated a part-time campus Equipment Manager, but has not officially designated an employee to be responsible for equipment assigned to each unit location. Accountability at the unit level must be established to adequately establish responsibility for the safekeeping and accurate record keeping for equipment at all times.
- The last complete physical inventory for College equipment was taken in 1998. However, the effectiveness of this physical inventory is questionable since it took 1.5 years to complete and the PCS was not updated to reflect missing items or incorrect

information. Furthermore, the overall results were not summarized for follow-up action nor communicated to management.

- College management does not monitor whether the Equipment Manager is correctly updating PCS for new items or whether he is ensuring that surplus or scrapped items are removed from PCS and are disposed of properly in accordance with State policies.
- The College maintains a large storeroom called the Auditoria which contains hundreds of used computers and computer components as well as upwards to 100 personal computer systems. While we were informed that the Auditoria is kept locked when unattended, tighter controls such as an intrusion alarm system and/or use of a secured inner cage for highly valuable items would appear to be warranted.

In addition to evaluating equipment control procedures and practices, we selected a random sample of 120 PCS items of equipment from the five College departments with the highest total equipment costs. The 120 items had an original cost of \$305,876. Our objective was to test the accuracy of the PCS record and to determine whether any of the sampled items were missing. Results showed that College staff were not able to locate or otherwise account for 27 items (23 percent), with an original cost of \$61,970 (20 percent). Also, 13 other items (11 percent) were old computer items coded as "storage" or "cannibalized" on the PCS record. The Equipment Manager told us that these items had since been discarded, but he had not removed them from the PCS record.

The results of our sampling and testing of the College's PCS record suggest that this record may not be sufficiently reliable as a management tool. We selected a judgmental sample of 14 College equipment purchases made during the three year period July 1996 through June 1999 to test whether new equipment items were being properly added to the PCS record. We found that five items (36 percent) had not been added. We also selected a judgmental sample of 11 equipment items that were in use and labeled with a PCS property tag. We tested whether these items were recorded on the PCS record and found that two items (18 percent) were not. Furthermore, we analyzed equipment deletion transactions on the PCS record and identified 69 deletions of items that were less than 1.5 years old. We sampled 12 of these transactions for further review. The Equipment Manager told us that all 12 items had been deleted in error and should have been added

back onto the PCS record. However, 6 items (50 percent) had not been added back to the PCS record.

Officials informed us that some improvements in property control have been made recently, including the institution of new procedures for the removal of College property off campus. The new procedure restricts the use of College property for authorized College purposes only, while the old procedure permitted employees to borrow assets for personal use. The College plans to conduct annual physical inventories every January and will require every campus unit to designate an individual as property coordinator. In addition, officials will consider utilizing an interior locking cage area and an alarm system for the Auditeria. Officials further advised us that the College will create and fill the position of Campus Property Control Manager. The Manager will conduct an identification and a formal risk assessment of the College's valuable equipment assets. A plan will be devised to exercise controls commensurate with the value of the equipment and risk of loss. We commend officials for the important steps they are taking to control and to account for their valuable assets.

Recommendations

8. Develop and communicate adequate written equipment control procedures specific to the campus.
9. Formally assign administrative responsibility for equipment control to specific individuals at the location unit level.
10. Fulfill the commitment to perform annual physical inventories of the College's equipment assets and monitor the reported results.
11. Monitor the activities of the Equipment Manager to ensure equipment acquisitions and disposals are processed properly.
12. Improve security over equipment stored in the Auditeria.
13. Follow up on equipment items that could not be located or otherwise accounted for, and correct the record keeping errors identified in this report.

(College and SUNY System Administration officials generally agree with recommendations number 8 through number 13.)

Major Contributors to This Report

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Ulster County
Westchester

December 16, 1999

Mr. Jerry Barber
Audit Director
Office of the State Comptroller
The State Office Building
Albany, New York 12236

Dear Mr. Barber:

In accordance with Section 170 of the Executive Law, we are enclosing the comments of SUNY College at Cortland and SUNY System Administration regarding the draft audit on the Selected Financial Management Practices, SUNY College at Cortland (99-S-13).

Sincerely,

Donald G. Dunn
Executive Vice Chancellor

Enclosure

**State University College at Cortland
Selected Financial Management Practices
98-S-13**

General Comments

(SUCC) The management at SUNY Cortland found the recent audit by the Office of the State Comptroller to be a constructive process, which provided the College with many suggestions as to ways in which the internal controls at SUNY Cortland could be improved. Within the limits of resources available, these suggestions will be implemented. And, it should be noted here that the College administration has made some additional resources available to enable significant progress to be made, as will be clear in the attached response.

As will also be evident in this document, SUNY Cortland, like many agencies, needed to use a larger percentage of its resources and energies in the past year in order to get ready for Y2K, including the replacement of legacy administrative computer systems. This effort took away from some other initiatives and continues to do so. Until the new system is working smoothly, resources will be strained. This is particularly true in the Bursar's Office where the problem has been exacerbated by changes in student loan procedures and a backlog of work related to the new system implementations

This being said, the College will continue to work toward implementation and awareness of internal controls on campus. Top management will make sure that the campus community realizes the individual and collective responsibility for the implementation in monitoring of internal controls. In the following responses to the recommendations of the Office of the State Comptroller, SUNY Cortland has outlined the steps already taken and planned to be taken to ameliorate the weaknesses found in this audit.

Internal Control Environment

Recommendations (Page 5)

- (OSC) 1. Further develop and maintain an operating style and philosophy that formally recognizes and supports the control components of risk assessment, control activities, communication, and monitoring for revenue and equipment.

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- (SUCC) 1. The College recognizes a need to put more emphasis on internal controls in all areas from Computer access to equipment tracking. This will be done through a variety of means from specific office training to changes of specific policies (several examples are included in this report) and a campaign of general campus awareness. Additionally, formal training sessions are being scheduled by the campus Internal Control Office to strengthen and clarify responsibilities of operating unit managers and staff. In some cases, there have been changes in organizational structure to ensure that adequate controls are in place. In other cases, additional resources were needed. For example, the College is currently filling a full-time inventory control position. Because of budget constraints, this position had operated at a half-time level in recent years.
- (OSC) 2. Demonstrate management support toward good internal control by being responsive to information developed through prior external audits.
- (SUCC) 2. Current management is dedicated to implementing the suggestions and corrections of the current audit, and to keep this process at a high priority. Managers from all areas mentioned in the audit have been meeting and addressing the issues raised by the audit on a regular basis, and progress has been tracked and documented. These meetings will continue on at least a monthly basis until corrections have been made, and then continue on a quarterly basis to monitor the implementation of internal controls in key departments.
- (SU) 1-2. We agree with the recommendations and the College's responses.

Revenue Control

- (SUCC) As with the many other areas of the campus, the Bursar's Office suffered from budget cuts and turnover of staff during the past five years. In addition, SUNY Cortland has been implementing a totally new computer system (Banner) during the past year; in fact, the first full billing with Banner recently went out for the Fall 1999 semester. This changeover had an enormous impact on the workload in the Bursar's Office that will take some time to recover. However, it is hard to maintain strict division of duties within current staffing. More generally, we agree that we can tighten up in some areas and implement testing procedures so that chances of loss are minimized.

It should be noted here that the audit was done on the College's Triton computer system, which is no longer in active use. However, the College acknowledges that most of the recommendations should be implemented also on the Banner system to the extent that they have not already been accommodated by the new software. Some areas will have related improvements with the new system; for example, Triton

automatically printed refund checks; this was one of the reasons that there were a number of such checks in the Bursar's Office. Banner prints such checks only upon request. The implementation of a totally new computer system has also given the College a chance to retrain personnel and reiterate and distribute policies as to access and security. This should result in improved security awareness and better practices in regards to this issue. Initially, however, the new system has meant additional workload, numerous problems, and a steep learning curve-all of which contributed to the problems delineated in the audit report.

The findings of this audit prompted renewed consideration in an organizational change wherein revenue management, including coding control of the general ledger, and revenue reconciliation/distribution becomes the responsibility of Accounting as a Business Office unit and independent of Bursar/Student Accounting. This model strengthens responsibility separation and consolidates total resource management, leaving Bursar/Student Accounting more focused on student account administration.

The significant reorganization, if to be sustained, requires the transfer of the currently assigned 1.00 FTE staff to Accounting or additional allocation.

Recommendations (Page 11)

(OSC) 3. Adequately separate duties within the Bursar's office to address the control weaknesses discussed in our report. Where adequate separation of duties is not practical implement compensating controls.

(SUCC) 3. The College agrees with this recommendation. However, total separation is not feasible at current staffing levels given cyclical demands for cash handling. It would also seriously impact customer services. However, to partially address this problem, an additional Calculations Clerk I is being recruited to act as assistant cashier so that at least one other staff member can be formally relieved of cash handling access. The College will continue to look for opportunities for further separation of duties.

Also, as a compensating control, effective immediately, a daily journal activities report is being reviewed by Business Office staff outside of the Bursar's Office.

(OSC) 4. Restrictively endorse mail remittances upon receipt

(SUCC) 4. The College agrees with this recommendation. This is being done.

(OSC) 5. Establish policies and procedures that restrict access to refund checks and

ensure timely distribution or redeposit of unclaimed checks.

- (SUCC) 5. This is a point well taken. A formal procedure has been implemented to ensure proper control and disposition of student refund checks.
- (OSC) 6. Establish policies and procedures for performing bank reconciliations in a timely, accurate and efficient manner, including the requirement that check signatures and endorsements be reviewed during the reconciliations.
- (SUCC) 6. The College agrees with this recommendation. Policies and procedures (see attached procedure dated 11/29/99) are being developed to reflect sound internal controls and timely and efficient reconciliations. In the interim, the bank reconciliation backlog is being addressed by the assignment of 1.5 FTE to the task, and the process is being supervised by staff independent of Bursar operations. Upon gaining current status, the responsibility for bank reconciliations, including review of check signatures and endorsements will be permanently performed by Accounting, independent of the Bursar. This reassignment may require institutional allocations of additional staffing resources to Accounting, however. In addition, techniques for better efficiencies for this process under Banner will be investigated in conjunction with the College's banking services provider.
- (OSC) 7. Establish comprehensive policies and procedures for strengthening access controls over computerized revenue records by:
- requiring that established user IDs be periodically reviewed to determine that they continue to be appropriate;
 - deleting in a timely manner those user IDs that pertain to former employees;
 - discontinuing the practice of using generic user IDs; and
 - providing for the review and follow up of security violation logs, limiting the number of potential invalid sign-on attempts, and disconnecting computer terminals that remain connected, but idle for predetermined periods.
- (SUCC) 7. The College agrees with this recommendation. A number of years ago, a Computer Access and Usage Policy was jointly drafted by Administrative Computing and Academic Computing. This policy was subsequently approved by the President's Cabinet and has been published in written and electronic form. This policy (see attached policy and procedures dated 12/99) has been recently revised to reflect stronger controls, and is being scrupulously

enforced. Levels of access are also being periodically reviewed.

The problem of generic user accounts has been discontinued, with one exception. The Registrar's Office has a need for active computers on a counter to address the concerns of walk-in traffic. This has been allowed with the proviso that it is limited to "inquiry only." There are no longer any generic log-ons in the Bursar's Office.

Procedures have been developed and implemented for the timely notification of the security administrator by the Human Resources department on a biweekly basis, to coincide with payroll changes. In addition, department heads will be asked to notify Information Resources when accessibility changes should be made.

A problem area that was cited is the inability to limit the number of invalid log-ons at a specific computer. While this can be controlled if an individual is attempting to gain access directly to one of the main College computers, we do not believe that it can currently be controlled for signing into Banner. As we understand it, access into the Banner system is controlled by the software and cannot be controlled by campus personnel. We will continue to investigate the security capabilities of the Banner software and discuss the matter with our sister colleges who also use Banner. Banner does provide a report of security violation; this will be monitored periodically and can be printed out for review upon request, as a compensating control.

(SU) 3-7. We agree with the recommendations and the College's responses.

Equipment Control

(SUCC) SUNY Cortland takes its stewardship of State resources very seriously; however, a number of factors may have converged to make property control at SUNY Cortland appear to be less stringent than would be desirable. Budget cuts turned inventory management into a part-time position, and delegated it to a classified employee. At the same time, technological changes meant a huge volume in additions and changes to the inventory system, as well as rapid depreciation in the value of older computer inventory, much of which was cannibalized for parts to keep other machines running. This was compounded by the need to inventory computer components down to a \$500 value. It is our intention to bring in a professional employee, part of whose duties will be to address these issues, among others, as part of a general reorganization and change in management in Physical Plant. This person will work with the Information Resources Division, as well as departments, to implement better controls and to enforce existing policy. A similar and successful initiative was recently made with

the Physical Space Inventory on campus.

The campus received the list of equipment that could not be located, and is working on trying to assign disposition of same. Some items have been accounted for. However, it should be again noted that 28 of the 33 items are pieces of computers or technical equipment over five years old and many are over ten years old. Some of this equipment has been replaced twice within that time span. However, by January 1 we expect all items on the list to be documented as to location and/or disposition.

It should also be mentioned that some improvements in property control have been made recently, including the institution of new procedures for the taking of College property off campus. As was also noted, the campus also intends to go forward with a formal risk assessment, which will lead to a plan to exercise control commensurate with the value of the equipment and the risk of loss, and which will also be in compliance with State of New York and SUNY Policy.

Recommendations (Page 14)

- (OSC) 8. Develop and communicate adequate written equipment control procedures specific to the campus.
- (SUCC) 8. The Colleges agrees with this recommendation. The College will update the SUNY Cortland *Property Control Guidelines* and will include procedures on security of space, the retrieving or access, usage and responsibility, repair and maintenance. In addition, the CPM (College Property Manager) will meet with departments to ensure that current policies are being enforced.
- (OSC) 9. Formally assign administrative responsibility for equipment control to specific individuals at the location unit level.
- (SUCC) 9. The College agrees with this recommendation. All departments have been asked to assign such a person, and responses are being collected. Once a list is assembled, training will take place. The CPM will provide annual training/workshop programs prior to the start of each inventory for all Property Coordinators designated by each unit. The updated and revised *Property Control Guidelines* will also be distributed to each department supervisor.

We agree that the assignment of specific responsibility is necessary for a good property control. As noted above, the College will create and fill a new position as Campus Property Manager (CPM) to be responsible for Property Control and work closely with Central Stores in Physical Plant (this is in

- progress).
- (OSC) 10. Fulfill the commitment to perform annual physical inventories of the College's equipment assets and monitor the reported results.
 - (SUCC) 10. The College agrees with this recommendation. Such an inventory will be completed by August, 2000.
 - (OSC) 11. Monitor the activities of the Equipment Manager to ensure equipment acquisitions and disposals are processed properly.
 - (SUCC) 11. The College agrees with this recommendation. The Director of Physical Plant and the Associate Vice President for Facilities Management will closely supervise this area and provide monthly reports to the Vice President for Finance and Management.
 - (OSC) 12. Improve security over equipment stored in the Auditeria.
 - (SUCC) 12. The College agrees with this recommendation. The Auditeria in Van Hoesen is meant as a temporary storage space for Academic Computing Services. The section of the Auditeria where computers are stored is always kept locked when personnel are not present. The doors to the computer storage room automatically lock when closed. All of the new computers are kept in a separately locked cage area, within the Auditeria. While the location of the storage area is not ideal, space on campus is limited. Since the audit report, we have installed a new security cage, restricted key access and mandated that all new or valuable equipment be kept within the cage.
- In addition, the College will conduct an identification and assessment of all property storage (specifically the Auditeria) by the CPM and code officer to assure an adequate level of security for the value of the resources held in this area.
- (OSC) 13. Follow up on equipment items that could not be located or otherwise accounted for, and correct the record keeping errors identified in this report.
 - (SUCC) 13. The College certainly agrees that all missing equipment should be accounted for to the extent possible. As noted above, the list of missing items provided by the auditors on August 19, 1999 has continued to be investigated. Since much of the missing equipment is computer or technical equipment over five years old, it appears that some of it might no longer be in use and should have been processed for removal from the inventory system.
 - (SU) 8-13. We agree with the recommendations and the College's responses.

Procedure
General Checking Account
Bank Reconciliations

1. General Checking Account bank reconciliations are the responsibility of the Accounting Department of the Business Office, a unit independent of Bursar/Student Accounting. This fulfills the requirement for duties separation, between cash handling and bank reconciliations.
2. Each month a bank reconciliation will be performed as soon as practical after receipt of the monthly bank statement from Alliance Bank, N.A., the College's designated local depository.
 - A. Deposit transactions will be verified and reconciled, including elective transfers.
 - B. Payment transactions will be verified and reconciled, including checks and electronic transfers.
 - C. Issued unprocessed checks, voided checks, protested checks will be accounted for.
3. The bank statement balance will be reconciled to the month-end trial balance cash account.

This procedure will become effective upon bringing the current bank reconciliation backlog to current status, now being performed by Bursar staff under the general oversight of Accounting (fulfilling the compensating control requirement).

Business Office
November 29, 1999

**SUNY Cortland Computerized Administrative Information Systems
Access and Utilization Policy**

SUNY Cortland's computerized administrative systems are designed to protect the privacy of all information contained therein. Users shall only view information required to carry out their job responsibilities. Users have access to only those portions of administrative systems designated via their personal account. This access is approved by a department head or higher level administrator and reviewed and authorized by the Director of Administrative Computing Services.

Users shall respect the system integrity of all computerized administrative information systems. They shall not intentionally develop or use programs that infiltrate the system, or damage or alter any of the software components.

Users have the responsibility to use administrative systems in an effective, efficient, ethical, and legal manner. To ensure the security of administrative information systems, all users must adhere to the following:

1. Access to administrative systems is provided on a "need to know" basis conforming to State University of New York policy guidelines. Unauthorized access or attempted access to computers and/or data will constitute theft of services and will be subject to the penalties described below.
2. It is the responsibility of each user to practice system security measures. Usernames and passwords must be kept secure and passwords should be changed regularly. Users are prohibited from sharing their password with others. Multiple access to the same account is also prohibited.
3. Users are responsible for their accounts and data. Account access is granted to individuals for their use in performing assigned duties. Misrepresentation, misuse and carelessness may result in loss of data or system privileges.
4. Users shall not develop or use procedures to alter or avoid the accounting and monitoring of the use of computing facilities. For example, users may not utilize facilities anonymously or by means of an alias, and may not send messages, mail, or print files which do not show the correct username of the user performing the operation.
5. Users shall not violate the legal protection provided by licenses held by SUNY Cortland. They will not make copies of any administrative program.

Violation of any of the above is unethical, violates SUNY Cortland's policies and may constitute a criminal offense. Offenses will be dealt with according to any or all of the following: applicable Federal laws; Chapter 1.65 of the New York State Penal Law, the Cortland College "1991-1993 College Handbook," Part Five, Chapter 515; other laws regulations, and policies of the campus, the State University of New York, the State of New York and the United States of America. Offenses may result in the suspension or permanent closing of accounts, legal action and/or other action.

When Administrative Computing Services becomes aware of a possible violation, an investigation will be initiated in conjunction with relevant campus offices including the Provost, the Vice President for Student Affairs, the Office of Human Resources, and the University Police. Users are expected to cooperate fully in such investigations when requested.

In order to prevent further unauthorized activity during the course of such an investigation, Administrative Computing Services may suspend authorization for use of all computing facilities for the user(s) involved in the violation.

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SUNY Cortland Procedures for Maintaining Current and Accurate Banner Accounts

Users have access to only those portions of administrative system required to carry out their job responsibilities.

Initial Access

A Banner account, with designated form access, is created by the Banner database administrator with approval from a department head or higher level administrator and review and authorization by the Director of Administrative Computing Services. Upon demonstrated need, access to additional Banner forms is made available with the approval, review and authorization noted above.

Periodic Review

The Director of Administrative Computing will annually review all Banner accounts to check for their accuracy, currency, and appropriateness.

Termination and Transfer of Staff

Once a month Human Resources will provide the Associate Vice President for Information Resources with a list of staff who have terminated their employment or have transferred to another department/position. Information about employees with Banner accounts will be provided to the Director of Administrative Computing who will make appropriate changes to Banner accounts.

12/99