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Cynthia E. Anderson, *Ex-Officio*

Tuesday, February 26, 2013
2:00 p.m. or immediately following
previous meeting

Tod Hall
Board Meeting Room

AGENDA

- A. Disposition of Minutes for Meeting Held December 4, 2012**
- B. Old Business**
- C. Subcommittee Item**
 - 1. Discussion Items**
 - a. Report of Internal Auditors, Packer Thomas** **Tab 1**

Packer Thomas will provide an update on work in progress, Continuous Monitoring Reports on Payroll and Purchasing, Internal Audit Reports on Accounts Payable and Student Accounts, a report on Pollock Estate Redevelopment Project and a quarterly report of services.
 - b. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*** **Tab 2**

Katrena Davidson, Controller, will report.
 - c. Update on Contract for External Audit Services (period of July 1, 2012 through June 30, 2017)**

Katrena Davidson, Controller, will report.
- D. New Business**
- E. Adjournment**



**CONTINUOUS MONITORING -
PAYROLL
INTERNAL AUDIT REPORT**

January 30, 2013

DISTRIBUTION

Audit Subcommittee: Dr. John Jakubek
Atty. Leonard Schiavone
Mr. David Deibel
Mr. Harry Meshel
Mr. Joshua Prest

Chairman of the
Board of Trustees: Dr. Sudershan Garg

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Ms. Lisa Reichert



YOUNGSTOWN STATE UNIVERSITY

CONTINUOUS MONITORING - PAYROLL INTERNAL AUDIT REPORT

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Cover Letter

Overview and Summary of Results

Attachment A



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“In the long run, if you don’t put ethics before profits,
there won’t be a long-run.”



PACKER · THOMAS

Certified Public Accountants & Business Consultants

Youngstown State University
One University Plaza
Youngstown, Ohio 44555

The results of our continuous monitoring of the payroll process for the three month period ending December 31, 2012 are attached for your review. We have reviewed all of the results of this monitoring with management.

Packer Thomas

PACKER THOMAS
January 30, 2013

6601 Westford Place
Suite 101
Canfield, Ohio
44406

330-533-9777
1-800-943-4278
Fax: 330-533-1734
www.packerthomas.com



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**Youngstown State University
Continuous Monitoring - Payroll
For the period covering 10/1/12-12/31/12**

The goal of continuous monitoring is to provide greater transparency of the operations of the University and a more timely evaluation of operations for management and the Board of Trustees. Our continuous monitoring process consists of the analysis of information from the University’s system, processes, transactions, and controls. The timely analysis of this information helps to ensure compliance with policies and procedures and identify trends that may need to be addressed. In many cases, continuous monitoring can act as an early warning to detect control failure.

These analyses are intended to provide trends in operational controls between regularly scheduled internal audits. These trends are then reviewed by management in order for them to determine whether or not the results need to be investigated further. Continuous monitoring is not intended to replace normal internal audit procedures which are more in-depth and include inquiries, walkthroughs, and specific testing conducted on various sample sizes. However we have listed below the results of our procedures.

| | PROCEDURES | RESULT |
|-----|---|--|
| 1.) | Duplicate check numbers | |
| 2.) | Duplicate direct deposit numbers | |
| 3.) | Duplicate back account numbers | |
| 4.) | Excessive regular hours worked | |
| 5.) | Excessive overtime hours worked | Refer to Attachment A for analysis of overtime by department by quarter. |
| 6.) | Terminated employees receiving payment after termination | |
| 7.) | Employees who have changed their own employee records in the system | |
| 8.) | Employees with no address | |

| | |
|--|--|
| | Items identified do not require further investigation per management |
| | Exception(s) found in testing |



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Attachment A - YSU Payroll Continuous Monitoring Report as of December 31, 2012

| | see below | | | | | | | |
|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>2nd Q 2013</u> | <u>1st Q 2013</u> | <u>4th Q 2012</u> | <u>3rd Q 2012</u> | <u>2nd Q 2012</u> | <u>1st Q 2012</u> | <u>4th Q 2011</u> | <u>3rd Q 2011</u> |
| Facilities Maintenance | 3,461.13 | 8,195.00 | 2,271.69 | 2,451.34 | - | 15,248.26 | 13,918.24 | 13,814.71 |
| Police Department | 6,444.98 | 6,137.48 | 1,343.76 | 6,880.11 | 12,620.33 | 16,701.69 | 7,820.89 | 4,297.06 |
| Parking | 2,738.58 | - | - | 1,465.70 | 3,140.46 | 1,494.99 | - | - |
| Admin Assistants | 2,120.64 | 1,195.68 | - | - | - | 1,766.48 | - | - |
| Account Clerk | 1,296.18 | - | - | - | - | - | - | - |
| Network Services | - | - | - | - | - | - | - | - |
| University Development | - | - | - | - | - | - | - | - |
| Press Operator | - | - | - | - | - | - | - | - |
| Automotive | - | - | - | - | - | - | - | - |
| | 16,061.51 | 15,528.16 | 3,615.45 | 10,797.15 | 15,760.79 | 35,211.42 | 21,739.13 | 18,111.77 |

Brief explanation for overtime

2nd QTR 2013

| | |
|-------------------|--|
| Facilities | OT to cover night shift and repair/paint walls in Kilcawley |
| Police Department | OT for Career Fair, court, HS and YSU football games, Heartwalk, Paul Ryan visit, and holidays; also, two employees covered co-workers' shifts |
| Parking | OT football games parking and cover co-worker vacation |
| Admin Assistants | OT for HS and YSU football games and covered co-workers' vacation |
| Account Clerk | OT for football games |



**CONTINUOUS MONITORING -
PURCHASING
INTERNAL AUDIT REPORT**

January 30, 2013

DISTRIBUTION

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Mr. William Wheelock



YOUNGSTOWN STATE UNIVERSITY

CONTINUOUS MONITORING - PURCHASING INTERNAL AUDIT REPORT

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Overview and Summary of Results



“In the long run, if you don’t put ethics before profits,
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PACKER · THOMAS

Certified Public Accountants & Business Consultants

Youngstown State University
One University Plaza
Youngstown, Ohio 44555

The results of our continuous monitoring of the purchasing process for the three month period ending December 31, 2012 are attached for your review. We have reviewed all of the results of this monitoring with management.

Packer Thomas

PACKER THOMAS
January 30, 2013

6601 Westford Place
Suite 100
Canfield, Ohio
44406

330-533-9777
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**Youngstown State University
Continuous Monitoring - Purchasing
For the period covering 10/1/12-12/31/12**

The goal of continuous monitoring is to provide greater transparency of the operations of the University and a more timely evaluation of operations for management and the Board of Trustees. Our continuous monitoring process will consist of the analysis of information from the University’s system, processes, transactions, and controls. The timely analysis of this information helps to ensure compliance with policies and procedures and identify trends that may need to be addressed. In many cases, continuous monitoring can act as an early warning to detect control failure.

These analyses are intended to provide trends in operational controls between regularly scheduled internal audits. These trends are then reviewed by management in order for them to determine whether or not the results need to be investigated further. Continuous monitoring is not intended to replace normal internal audit procedures which are more in-depth and include inquiries, walkthroughs, and specific testing conducted on various sample sizes. However we have listed below the results of our procedures.

| | PROCEDURES | RESULT |
|---------------------------------|---|--------|
| Purchase Order and Pcard | | |
| 1.) | Purchase orders missing from sequential order | |
| 2.) | Purchase orders generated on weekends | |
| 3.) | Duplicate purchase order numbers | |
| 4.) | Purchase orders just below authorization amount | |
| 5.) | Analysis of large dollar volume vendors | |
| 6.) | Vendors with same address as employee | |
| 7.) | Duplicate invoices paid | |
| 8.) | Single transaction split to circumvent approval for both PO and Pcard | |
| 9.) | P-cards issued to terminated employees | |
| 10.) | Terminated employees who remain financial managers | |
| Vendor Master List | | |
| 11.) | No vendor address | |
| 12.) | Vendors with same address as employee | |
| 13.) | Unauthorized users making changes to the vendor master list | |

| | |
|--|--|
| | Items identified do not require further investigation per management |
| | Exception(s) found in testing |



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Youngstown

STATE UNIVERSITY

ACCOUNTS PAYABLE INTERNAL AUDIT REPORT

January 10, 2013

DISTRIBUTION

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Mr. Joshua M. Prest, Student Trustee

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Mr. William Wheelock



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YOUNGSTOWN STATE UNIVERSITY

ACCOUNTS PAYABLE INTERNAL AUDIT REPORT

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Youngstown, Ohio 44555

This report summarizes the results of our internal audit of the accounts payable process. Please review this report. If you have any questions, please call us at (330) 533-9777.

Management has provided their responses to our findings and those responses are included within this report.

We wish to thank the staff of the Accounts Payable department for the cooperation that was extended to us during the course of this audit.

PACKER THOMAS
January 10, 2013



"In the long run, if you don't put ethics before profits,
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OVERVIEW

An audit of the accounts payable and cash disbursements process for various periods ending in 2012, was recently completed by Packer Thomas. Our procedures were performed as a result of the internal audit risk assessment which was approved by the Audit Subcommittee

Independent third parties perform audits and/or reviews on various areas of the accounts payable process. In an effort to avoid duplication of efforts, we included, in the scope of our audit, areas that we believe were not already reviewed by those third parties or areas that we believe, based on our risk assessment, should be included in our audit. The scope of our audit focused on examining adherence to the University's policies and procedures in relation to aspects of the following areas:

- Credit Memos
- Vendor master files
- Employee reimbursed expenses
- Vendor invoices/invoice payments
- Procurement and Ghost Cards

The objectives of our audit were as follows:

- Review current procedures to determine the adequacy of the internal controls
- Determine the effectiveness and efficiency of operations
- Determine compliance with applicable laws, regulations, policies, procedures and other established guidelines

Our consideration of internal controls involved assessing the effectiveness and existence of proper internal controls for the following:

- Management oversight
- Segregation of duties
- Safeguarding of assets
- Reconciliations
- Authorizations
- Document retention

The procedures performed during our internal audit included interviews with Accounts Payable and General Accounting Department personnel as well as walkthroughs, and specific testing conducted on various sample sizes. Therefore, our consideration of internal control would not necessarily identify all deficiencies in internal control. However, we have listed below the summary of our findings in three separate categories (as applicable): those that we consider to be issues that require immediate action by management, those that need a timely remedy, and those items for consideration by management based on best practices.



AUDIT FINDINGS & RECOMMENDATIONS - REQUIRING IMMEDIATE ACTION

1. Invoices are not always entered when received. Invoices are posted into the Banner AP system just prior to a check run. This does not allow for management to have a clear understanding of the University's current obligations in order to effectively manage cash. This process increases the risk of past due accounts, lost purchase discounts and poor vendor relations.

Invoices should be entered upon receipt with due dates entered accordingly and an open payables report should be run at month end. The due dates entered should be such that any discounts offered will be captured by the University. A predetermined schedule of when to pay invoices with upcoming due dates should be made and followed appropriately. This process may allow the University to more aggressively request discounts or more favorable terms from vendors as vendors will know that payments will be received by the required due date. At month end, the open payables report should be reconciled to the general ledger and any variances noted should be investigated. These suggestions will improve controls over the accounts payable and cash disbursement functions.

MANAGEMENT RESPONSE

Banner system constraints, including issues with the Invoice Awaiting Receiver Report previously prevented the University from fully utilizing the payment due date functionality in the system. Because of this, a manual work-around was developed to counteract these system limitations. Cash flow was managed off system by holding invoices for input until the appropriate posting period to allow invoices to be paid as close to the due date as possible and to take advantage of any available cash discounts. However, this method did prevent the system from accurately portraying open payables. Subsequently, system issues were resolved. Effective December 2012 the due date capabilities of the Banner AP system were implemented and procedures modified.

2. The University's accounts payable process is largely a manual function involving handling of paper invoices. As a result, the University has had limitations in processing payables in an efficient manner as well as interacting with vendors that use electronic systems. Refer to Exhibit A attached to see a flowchart that depicts the University's current accounts payable process. A predominately manual system increases the risks of an undesirable level of duplicate, late, inaccurate, or unauthorized payments and a lack of information useful for managing costs and cash flow.

We believe that the University would benefit by adopting an automated approach to processing accounts payable. Potential benefits include:

- Improved cash control.
- Improved relationships with vendors, including better interface with those that use automated systems, and increased ability to investigate and resolve issues and problems that may arise on a timely basis.
- Greater control over the accounts payable process, including the invoice capture, coding, and approval process.
- Better documentation of the process and related controls.
- More timely, accurate, and useful reports and analyses that can be used for management decision making and control.



AUDIT FINDINGS & RECOMMENDATIONS - REQUIRING IMMEDIATE ACTION (continued)

In order to further automate the accounts payable process, the following should be considered:

- *Capture*—the new process should be able to handle both paper and electronic invoices, with emphasis on keeping manual data entry to a minimum. For instance, paper invoices can be entered by scanning using optical character recognition software and electronic invoices can be integrated directly into the system. The system also should allow for integration with the cash payments system. It should also provide for the capture of information from all relevant sources, such as the vendor's master file as well as the invoice being processed.
- *Processing*—how invoices are reviewed, approved, and coded. Codes applied to invoices should continue to be validated against the general ledger chart of accounts, and invoices should also continue to be routed only to persons with the authority to review and approve them.
- *Reporting*—how information about payables is summarized in reports that are useful for monitoring unrecorded liabilities, timely and efficient researching of vendor inquiries or problems, forecasting cash flow requirements, etc.

See Exhibit B attached as we have prepared a flowchart depicting a newer, more efficient, accounts payable process.

MANAGEMENT RESPONSE

We agree that the current accounts payable process is manually intensive and would benefit from a more automated approach. The University is currently utilizing the SciQuest suite of products including Spend Director, Order Manager, Requisition Manager, Contract Manager, and a portion of Settlement Manager (receiving). A contract for the implementation of the remaining Settlement module components is in place with a scheduled go live date of July 1, 2013. This module will enhance efficiencies and controls surrounding the accounts payable process, including e-Invoicing, automated workflow, and reporting capabilities. The flowchart presented will be considered as processing changes are developed.

3. Currently, a very small percentage of payments are made to vendors utilizing electronic methods. The accounts payable department handles a high volume of disbursements. A significant number of these disbursements are routine payments to vendors with whom the University has an established relationship and to whom payments are made on a frequent basis. Many of these payments are critical and delivery is time-sensitive in order to meet contractual requirements or to take advantage of discounts.

To increase operational and administrative efficiency, we recommend that the University establish an electronic payment program and convert as many vendor payments to the program as possible.

MANAGEMENT RESPONSE

Identification of current vendors who have e-invoicing capabilities is currently underway. Conversion to e-invoicing will take place as part of the Sciquest Settlement implementation, which is scheduled to go live July 1, 2013.



AUDIT FINDINGS & RECOMMENDATIONS - REQUIRING IMMEDIATE ACTION (continued)

4. Invoices are stamped as paid as they are entered into the system, which is prior to matching an invoice with the purchase order and receiving report. It can later be determined that there is not a three way match and the invoice will not be paid until a financial manager approves payment. However an invoice could be stamped as paid, when in fact it is not paid. This increases the risk of an invoice inadvertently not getting paid.

The invoice should not be stamped paid until after it has been determined that the approval process is complete.

MANAGEMENT RESPONSE

We agree with the recommendation. The language on the AP date stamps has been changed from "Paid" to "Posted".

5. General Accounting spends several days per month auditing 100% of procurement card transactions because of the large number of potential non-compliance issues that were being noted during spot audits. While we applaud General Accounting for doing this, this does not resolve the problem. Users of the procurement cards should be retrained on how to use these cards and disciplinary actions should be taken when non-compliance issues are habitual. Additionally, we found that during General Accounting's audit of the procurement card transactions, some purchases were deemed to be questionable, i.e. potentially personal in nature.

The current procurement card policy states that employees will be held liable for personal purchases. This policy is not currently being enforced in a consistent and timely manner. A personal purchase made on a University procurement card constitutes the misappropriation of University funds. As such, these questionable costs should be researched and resolved as soon as they are discovered. Violators should then be required to immediately repay the University for any and all expenses deemed to be unallowable and personnel who habitually do not comply with the policies should lose their procurement card privileges.

MANAGEMENT RESPONSE

We recognize that the 100% audit of the monthly P-Card transactions does not solve the non-compliance problems. The audits are being utilized as part of a comprehensive review to identify areas of non-compliance. As a result of our audit findings, we have begun increasing our enforcement efforts, including systematic application of disciplinary actions. We are also in the process of updating of the P-Card manual and will require mandatory cardholder re-training by October 2013. An accounting intern position has been added to assist in audit processes, including timely identification and follow-up of potential P-Card non-compliance.



AUDIT FINDINGS & RECOMMENDATIONS - REQUIRING IMMEDIATE ACTION (continued)

6. There is a lack of segregation of duties within Accounts Payable. The same person who has access to vendor maintenance also has the ability to post invoices in the accounts payable system. This lack of segregation of duties weakens internal control and gives way to opportunity for fraudulent activity.

Any person who has the ability to post in the accounts payable system should not be able to create or change a vendor in the vendor maintenance files. This will mitigate the risk of one person having access to both set-up and pay vendors.

MANAGEMENT RESPONSE

Responsibilities in the Accounts Payable area are split to ensure that the three main functions, vendor maintenance, invoice posting and check creation, are not assigned to any one staff member. This is controlled through Banner security. Although it may be desirable to segregate vendor maintenance and posting, we believe that our current segregation of duties is a compensating control that limits disruption during employee absences and minimizes the risk of fraud.

AUDIT FINDINGS & RECOMMENDATIONS - REQUIRING A TIMELY REMEDY

1. Goods returned to vendors are not properly monitored. As of December 14, 2012 there was over \$305,000 in open credit memos of that amount \$52,717 were for credits older than 40 days. Without tracking returned goods, there is no way to verify the University received a credit for the returned good or to ensure the University is not paying for goods that have been returned.

Departments should notify Accounts Payable of items that are returned and provide the following information: vendor name, invoice number if known, the reason for the return and whether they have requested replacement or a credit. Accounts Payable should then monitor the returned items requesting credit in order to verify proper credit was received.

MANAGEMENT RESPONSE

The majority of the open credit memos relate to YSU Bookstore activity. General Accounting provides an open invoice report on a monthly basis to the Bookstore for monitoring purposes. For other credits noted, departments handle returns and credit tracking directly, typically receiving replacement goods or credit toward another order.

2. We noted an exception form for a ghost card transaction that exceeded authorized limits that was not approved prior to a purchase taking place. Ghost cards are so-named because a credit card number is issued without the production of a charge card. They are best used when employees deal exclusively with one supplier and the transaction can be completed either electronically or over the phone. The Request for Exception Form specifically states "A request for exception form should be submitted and approved before the expense or exception occurs." The transaction occurred on April 19, 2012 yet the exception form did not receive final approval until May 8, 2012.

When an exception is necessary, the purchase should not be made until the exception form is completed in its entirety, including the required approvals. Failure to follow University policy should result in proper disciplinary actions.



AUDIT FINDINGS & RECOMMENDATIONS - REQUIRING A TIMELY REMEDY (continued)MANAGEMENT RESPONSE

Ghost Cards are utilized exclusively by Procurement Services and Athletics for travel related expenses and catering by our contract foodservice supplier. The transaction in question was an emergency situation as noted on the form. Changes in limits can ONLY be made by or at the direction of the Director of Procurement Services. In emergency situations it may not always be feasible to complete the form in its entirety before the expense, however, it should be completed in a timely manner after the fact. We do not consider situations such as these as an incident of non-compliance.

3. One of the procurement card "Request for Exception Forms" that was reviewed had a stated reason "I forgot my credit limit because I am used to using my (financial manager's) credit card". As specifically stated in the cardholder agreements, procurement cards are not to be shared between cardholders. Each cardholder has certain limits that are exclusive to them and the card they hold. Using another cardholder's card results in circumventing management controls and increases the risk of unauthorized transactions

Any improper use of the procurement card should result in disciplinary actions. In these situations, consideration should be given to suspending the cardholder's use of the procurement card.

MANAGEMENT RESPONSE

For the particular transaction in question, the cardholder used their own card. However, based on the comments documented on the form by the cardholder, a follow-up e-mail was sent to remind cardholder that they are only authorized to use their own card and that non-compliance may result in disciplinary action

4. We noticed that a rather large vendor list exists and some of the vendors are inactive. The integrity of the vendor master list is important to help prevent unauthorized payments. Proper maintenance of the vendor master list is an important control in order to prevent fraud. Additionally, a poorly monitored vendor master list can be the source of frustration for the accounts payable department. Proper monitoring and updating of the vendor master list will assist with keeping the listing current, the accounts payable department more efficient and reduce the risk of fraud.

We noted that certain controls are in place to protect the integrity of the vendor list such as limiting the number of persons with access and auditing of changes to the vendor list by Packer Thomas during our quarterly continuous monitoring. In order to further strengthen these controls, we recommend that the vendor lists be reviewed periodically to remove inactive vendors. An aged activity report could be generated by vendor to assist with this review.

MANAGEMENT RESPONSE

We agree. Although a comprehensive review of the vendor master file is performed when a new system is implemented, a routine vendor maintenance procedure does not currently exist. Vendor maintenance procedures will be established and implemented by July 1, 2013.



AUDIT FINDINGS & RECOMMENDATIONS - REQUIRING A TIMELY REMEDY (continued)

5. Many financial managers are not adhering to the University's procurement card policy. Infractions include failure to remit original receipts, failure to perform their review and failure to submit the supporting receipts by the required due date. This creates more work for the Accounts Payable personnel who are in charge of collecting these reports and reviewing them.

The use of a procurement card should be viewed as a privilege and not a right. Therefore, as stated earlier, stricter disciplinary actions should be taken in order to ensure compliance with University policy.

MANAGEMENT RESPONSE

We have begun increasing our enforcement efforts, including systematic application of disciplinary actions. Stricter disciplinary actions will be incorporated into the updated P-Card manual and cardholders will be required to attend training by October 2013.

BEST PRACTICES

1. An electronic vendor maintenance form should be available on the YSU website so that a potential vendor has the ability to simply fill out and submit the form electronically. This would make the vendor maintenance process easier and more efficient.
2. Currently, any invoice that is even a penny more than the purchase order is sent to the financial manager for approval of the additional costs. The process would be more efficient if there was an acceptable de minimis variance threshold (for instance \$10). The de minimis threshold policy could even be more specific in that it could pertain only to shipping and handling costs instead of actual price variances.
3. Approximately 45% of all invoices for FYE 6/30/12 were under \$250.00 and 16% of total invoices were under \$50.00. The use of the procurement card should be expanded in order to reduce the number of small invoices and the work associated with processing and producing a check for the invoice.
4. Scanning and indexing every paper invoice costs the University approximately \$9,300 per year. This is due to the fact that administrative assistants are performing the scanning and indexing rather than a student employee or clerical person. As stated in immediate findings above, the preferred approach to becoming more efficient is to receive invoices electronically thereby eliminating the scanning function altogether; in the meantime, allowing a student employee or clerical person to scan and index each invoice could improve efficiency and result in cost savings to the University.
5. Accounts Payable personnel receive many questions regarding the process of reviewing procurement card statements or accessing procurement card information online. Consideration should be given to creating a "procurement card frequently asked questions" on the YSU website. This would help reduce the number of questions directed to the Accounts Payable personnel.




BEST PRACTICES (continued)

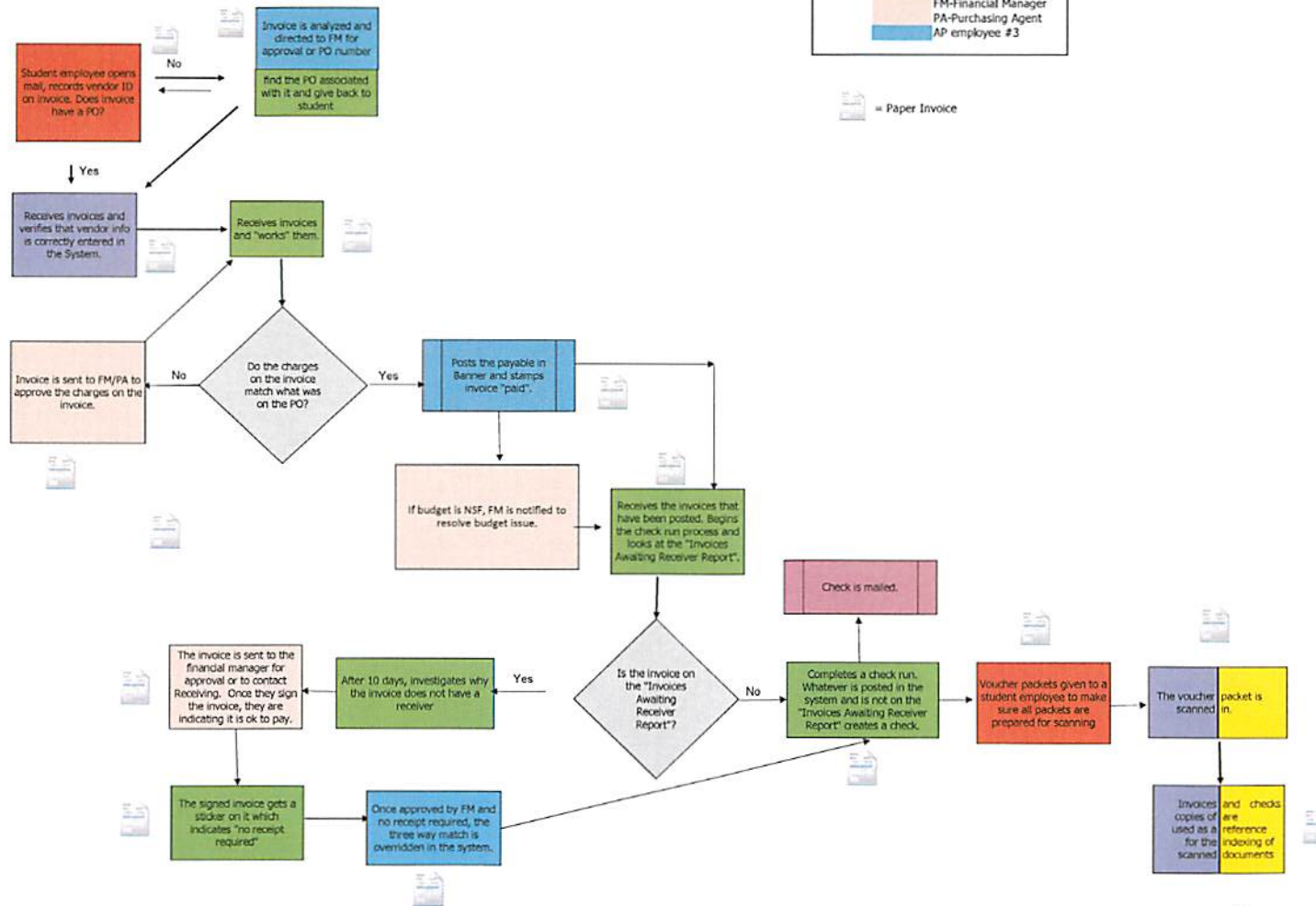
6. If an invoice does not have a three way match due to a price discrepancy or lack of a receiver, Accounts Payable needs the financial manager's permission before paying the invoice. Currently, the invoice in question is either faxed or mailed to the financial manager who signs the invoice and either faxes or mails the invoice back to Accounts Payable. In order to improve efficiency and to reduce the risk of the invoice being lost, Accounts Payable should email the invoice to the financial manager and the financial manager should be able to log into the system and sign off electronically, indicating they have received the service or goods or they approve the additional costs.



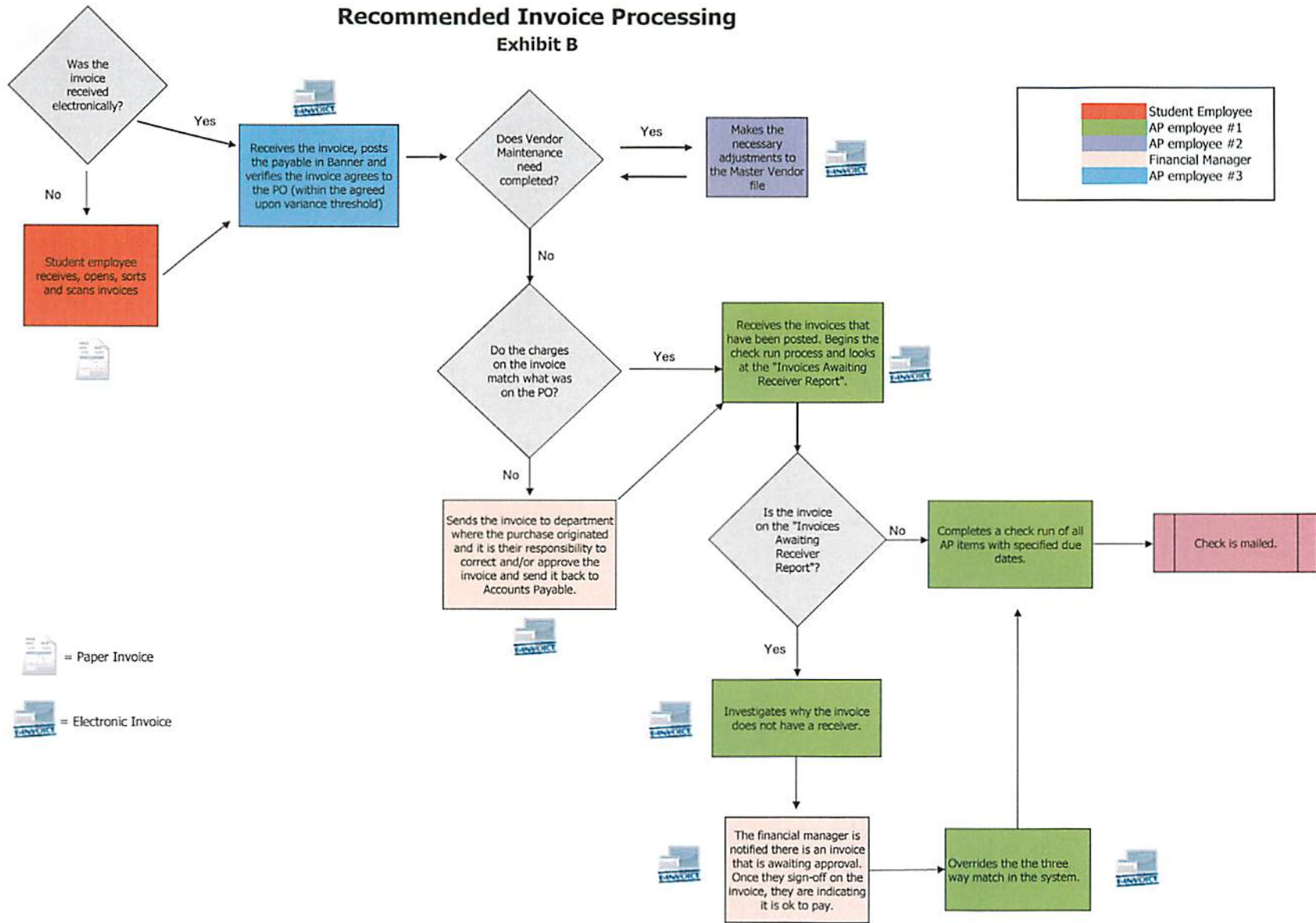
**Current Invoice Processing
Against Encumbered Purchase Orders
Exhibit A**

| | |
|--|----------------------|
| | Student |
| | Procurement employee |
| | AP employee #1 |
| | AP employee #2 |
| | FM-Financial Manager |
| | PA-Purchasing Agent |
| | AP employee #3 |


 = Paper Invoice



Recommended Invoice Processing Exhibit B



- Student Employee
- AP employee #1
- AP employee #2
- AP employee #3

 = Paper Invoice
 = Electronic Invoice

Youngstown

STATE UNIVERSITY

STUDENT ACCOUNTS AND UNIVERSITY RECEIVABLES INTERNAL AUDIT REPORT

November 29, 2012

DISTRIBUTION

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Mr. Harry Meshel
Mr. Joshua M. Prest

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Mr. Neal P. McNally
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STUDENT ACCOUNTS AND UNIVERSITY RECEIVABLES INTERNAL AUDIT REPORT

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Youngstown, Ohio 44555

This report summarizes the results of our internal audit of Student Accounts and University Receivables. Please review this report. If you have any questions, please call us at (330) 533-9777.

Management has provided their responses to our findings and those responses are included within this report.

We wish to thank the staff of the Student Accounts and University Receivables department for the cooperation that was extended to us during the course of this audit.

PACKER THOMAS
November 29, 2012



"In the long run, if you don't put ethics before profits,
there won't be a long-run."

OVERVIEW

An audit of Student Accounts and University Receivables (SAUR) for the fiscal year ending June 30, 2012, was recently completed by Packer Thomas. Our procedures were performed as a result of the internal audit risk assessment which was approved by the Audit Subcommittee

Independent third parties perform audits and/or reviews on various areas of the Student Accounts and University Receivables Department. In an effort to avoid duplication of efforts, we included, in the scope of our audit, areas that we believe were not already reviewed by those third parties or areas that we believe, based on our risk assessment, should be included in our audit. The scope of our audit focused on examining adherence to the University's policies and procedures in relation to aspects of the following areas:

- Title IV, including adherence to the Department of Education's (DOE) guidelines
- Customer Service
- Cash Collections
- Credits to student's accounts
- Billing
- Form 1098-T

The objectives of our audit were as follows:

- Review current procedures to determine the adequacy of the internal controls
- Determine the effectiveness of operations
- Determine compliance with applicable laws, regulations, policies, procedures and other established guidelines

Our consideration of internal controls involved assessing the effectiveness and existence of proper internal controls for the following:

- Management oversight
- Segregation of duties
- Safeguarding of assets
- Authorizations

The procedures performed during our internal audit included interviews with Student Accounts and University Receivables Department personnel and some students as well as walkthroughs, a surprise cash count and specific testing conducted on various sample sizes. Therefore, our consideration of internal control would not necessarily identify all deficiencies in internal control. However, we have listed below the summary of our findings in three separate categories (as applicable): those that we consider to be issues that require immediate action by management, those that need a timely remedy, and those items for consideration by management based on best practices.



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AUDIT FINDINGS & RECOMMENDATIONS - REQUIRING IMMEDIATE ACTION

1. There is a lack of proper controls over the receipt of funds. Although controls exist, there are two that are instrumental to sound controls that are missing. First, a control list of receipts is not maintained. Secondly, restrictive endorsements on checks received are not made at the time of receipt. The lack of these two controls increases the risk of misappropriation of funds.

The following procedures should be implemented to ensure proper internal control over cash:

- As funds are received, one employee should make a control list of all receipts and restrictively endorse all checks as “for deposit only”.
- As change funds are utilized, reconciliations between the same receipts and the change fund should be conducted.
- Another employee should prepare the deposit.
- Lastly, someone who does not otherwise handle receipts should compare the deposit slip to the control list of receipts to ensure that all funds were actually deposited.

MANAGEMENT RESPONSE

- Controls are in place when receipts are received for departmental deposits or when a department enters deposits in Banner.
 - For non-departmental deposits, Management has added a new procedure, effective immediately: a log of receipts will be recorded and immediately restrictive endorsed.
 - Management currently reconciles cash fund debits/credits with the exception of minority and student service loans and those funds are compared and verified by cashiering staff.
 - Currently all deposits are entered by cashiers and verified by the cashiering manager.
2. Medical records are comingled with student records in the SAUR office. The Fees & Charges Appeals Board (FCAB) often receives student’s medical records or detail of their medical condition as part of the student’s appeal. These medical records are stored with the student’s records and any employee in the SAUR office has access to them.

Under the Health Insurance Portability and Accountability Act, also known as HIPAA, there must be a separation of medical information from other personnel records.

MANAGEMENT RESPONSE

SAUR infrequently receives medical records pertaining to fees and charges appeals. The FCAB requests medical records only if a physician signature is impossible to obtain, e.g., due to retirement.

Going forward, Management will mandate that any medical records be stored separately and only accessed by the Director, Director Designee, or FCAB Chairperson. All other medical records will be shredded upon the conclusion of the appeal when a physician signature is present.



AUDIT FINDINGS & RECOMMENDATIONS - REQUIRING A TIMELY REMEDY

1. At times, cashiers share cashier drawers. If cashiers share drawers it increases the risk of error and it makes it impossible to separate one cashier's collections from another. This could pose a problem when attempting to trace an error to the correct person.

Cashier drawers should not be shared under any circumstances. Even though cashiers may wish to resort to this during busy times, the fact that they are busy already increases the risk of error. Having two or more cashiers in a drawer will only further increase that risk.

MANAGEMENT RESPONSE

Management agrees with this recommendation. Accordingly, drawers are not to be shared, effective immediately. The Director or Director's designee will monitor.

2. Exit counseling for students is not routinely performed as required by the DOE for all students who receive funds via one of the Federal Student Loan programs. Financial aid is not notified when a student withdraws from classes and therefore cannot send exit counseling materials to the student in a timely manner. Counseling helps increase the chances of collection because it informs the student of the consequences of failure to pay a bill.

When it is determined that a student withdrew from a class, SAUR should notify Financial Aid so that they can prepare and send exit counseling materials to the students within 30 days. Better communication between SAUR and Financial Aid is recommended to ensure this issue is resolved.

MANAGEMENT RESPONSE

Procedures are currently in place for students who received Title 4 monies and who have 'unofficially withdrawn' from a semester; i.e. the student never officially withdrew, but stopped attending classes and passed no classes. In these situations, a notice from Financial Aid regarding exit counseling is included in the packet of information sent to students regarding 'Return to Title 4' calculations and the subsequent balance due on the account.

SAUR will work with Financial Aid and Registration to develop procedures to identify students who withdraw from the University, who may or may not owe a balance to the University, but who have received loans while attending YSU. This will ensure that students will be sent the appropriate documentation as required by the DOE.

3. A student's request for a refund due to medical reasons was approved by the FCAB; however, a signature of a licensed physician was not present. It is possible that a student could fabricate a medical problem in order to obtain a refund. Obtaining a signature of a licensed physician ensures the student's medical condition actually exists.

If a student's request for a refund because of a withdrawal of classes due to medical problems is approved by the FCAB, it is required that a licensed physician signs the "Application for Involuntary Withdrawal" form. There is a review process in place to ensure the steps are completed properly but the review failed to catch the error. The reviewer should strive to be more diligent in the future to ensure appeal is completed properly and appropriately.



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AUDIT FINDINGS & RECOMMENDATIONS - REQUIRING A TIMELY REMEDY (continued)

MANAGEMENT RESPONSE

The instance cited above is uncommon and occurred under previous management. And while the previous director obtained a verbal response from the physician in this case, management will require written signatures.

4. Proper monitoring of reissued student refund checks is not being performed. At times refund checks for Title IV money are reissued to a student because their first check went stale. The U.S. Department of Education requires that if a reissued refund check is not processed by a student within 240 days of when the first check was issued, it must be returned to the U.S. Department of Education. SAUR does a nice job of monitoring checks initially; however, the audit trail is lost once a second check is issued.

SAUR should develop procedures to properly monitor reissued checks so that either the check is processed or the money is returned to the DOE within 240 days of when the first check was issued.

MANAGEMENT RESPONSE

Going forward management will develop a computer generated report similar to the one used for first-reissued checks. This will enable improved tracking for second-reissued checks.

5. There were eighteen FCAB credit adjustments made in the Banner system for the FYE 6/30/12 that were not included in the FCAB control list kept by the SAUR staff. The combined total of the credit adjustments not included in the official list was \$28,658.86. After further review of a sample of these transactions, it was noted that it appears the transactions were properly approved and the required documentation was in fact obtained.

The FCAB should keep an all-inclusive list of students who requested an FCAB appeal and also have the result of the appeal noted in the list. Without a complete list, the FCAB will not have the ability to formally approve all of the credits issued.

MANAGEMENT RESPONSE

Management agrees. Going forward, an official list will be maintained and reviewed frequently by the Director for accuracy. This list will also be used in the Director's review of credits.

6. Per YSU policies and procedures, the FCAB is supposed to meet at least once a semester to formally review and approve the credits approved by the SAUR staff. It was found that the FCAB has not formally met since April of 2011. There were approximately \$600,000 of FCAB adjustments processed during FYE 6/30/12 and none of them went through the formal FCAB approval process.

We recommend the FCAB meet at least once each term, as required by YSU's policies and procedures.



AUDIT FINDINGS & RECOMMENDATIONS - REQUIRING A TIMELY REMEDY (continued)MANAGEMENT RESPONSE

Management's interpretation of the current documented procedures suggest that the FCAB shall meet only when necessary, i.e., when an appeals decision is needed. Existing procedures will be updated to clarify this intent.

BEST PRACTICES

1. Student Accounts and University Receivables is not the only department that is able to override a hold on a student's account. This causes inconsistency when it comes to reasons for overriding holds and timing of these overrides. All overrides should be completed in SAUR and if another department wishes to override a hold, they should communicate this to SAUR where the override will take place.
2. All credit adjustments, including those from the FCAB should be reviewed after being entered by the cashier to ensure the correct amount was credited.
3. Currently, only 42% of refunds are sent via direct deposit. It is recommended that the office of SAUR set a goal for the percentage of refunds sent via direct deposit and then work towards achieving that goal. This will allow students to receive their refund faster and can save the University time and money by decreasing costs such as paper, printing, postage and labor.



Youngstown

STATE UNIVERSITY

POLLOCK ESTATE REDEVELOPMENT PROJECT CONSTRUCTION PROJECT MONITORING

January 9, 2013

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YOUNGSTOWN STATE UNIVERSITY

POLLOCK ESTATE REDEVELOPMENT PROJECT CONSTRUCTION PROJECT MONITORING

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Youngstown State University
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This report summarizes the results of our assistance in monitoring the construction contract and budgets associated with the various contractors and services provided for the Pollock Estate renovation. If you have any questions, please call us at (330) 533-9777.

We wish to thank the staff of the office of the VP for Finance and Administration and the Facilities department for the cooperation that was extended to us during the course of this engagement.

PACKER THOMAS
January 9, 2013



"In the long run, if you don't put ethics before profits,
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OVERVIEW

Packer Thomas was engaged by the Board of Trustees in June 2010 to monitor the construction project for the Pollock Estate Redevelopment and perform on-going analysis of costs and budgets during the construction period.

The initial objectives of this engagement were to ensure compliance with the approved construction budget and the approved construction contracts. Subsequently, we were charged with the task of being a member of the Project Oversight Committee. This committee met regularly to discuss all aspects of the construction project from the beginning of the project until substantial completion of the project in November 2012.

As part of the Oversight Committee, we were involved with reviewing the initial scope of the first building renovation construction bid which was bid in January 2011. These bids were subsequently rejected due to the bids being in excess of the projected budget and the project was rebid.

We participated in the development of the revised building project scope and project budget which was rebid in July 2011. These bids were accepted in August 2011 and the construction renovation project began in September 2011.

The scope of our engagement focused on participating in the Oversight Committee meetings, examining and documenting the contractor requests for payment and change order requests and monitoring the project costs with the construction budget.

The specific objectives of our engagement were as follows:

- Review each contractor payment request for proper signatures, accuracy of contract amount, computation, completion percentage and compliance with contract terms and agreements.
- Review each contractor change order request for reasonableness of labor hours, materials, overhead, and profit amounts in accordance with the contract. We also reviewed change order requests to ensure that the change requests were not already included in the original contract.
- Prepare and regularly update, a Summary of Project Budget / Payments to Date report and the Construction Contingency Allowance Summary Utilization Report and distribute to Oversight Committee members at each meeting.



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- Attend Oversight Committee meetings and participate in discussions and provide recommendations, when applicable to the Committee.
- Assist with the delineation of needs versus wants in order to prevent cost overruns
- Assure adherence to the University's policies and procedures in relation to construction projects.
- Reconcile the construction budget report to General Accounting's project cost report and investigate variances noted

Our consideration involved assessing the effectiveness of proper internal controls for the following:

- Facilities oversight and authorization
- Accounting and finance contract recording
- Architect oversight and authorization
- Effectiveness of Oversight Committee
- Legal oversight and authorization

Obtaining quality construction is a combined responsibility of the University and the construction contractor(s). It is important that the contracts define and emphasize the quality of material and workmanship that is required for the construction project. It is equally important that the University have the proper policies and procedures in place to properly monitor its construction projects. During our engagement, we were pleased to have witnessed the effective management and monitoring procedures in place as established by the University and implemented by the Facilities department. The established University monitoring procedures coupled with our monitoring procedures helped to ensure the success of this redevelopment project.

We are also pleased to report that the total costs of this redevelopment project remained within budget as evidenced in the budget report contained within.



In addition to the Project Oversight Committee meetings, we attended meetings with the Facilities Department personnel and the project architects as well as construction site visits in order to stay informed of the entire construction process. As a result of our participation in the process, we noted the following items for your review.

FINDING REQUIRING IMMEDIATE ATTENTION

1. We noted that the cost and budget information report that was prepared for us by the General Accounting Department did not agree with adjusted budget and payment requests included in our Summary of Project Budget/Payment Request report. The information used to prepare our report came directly from the Contractors Payment Request which was provided by the Facilities Department. It is our understanding that additional comprehensive cost and budget information was available to the Facilities Department through the Banner Accounting System to monitor all project construction costs. The risk associated with not reconciling with the accounting records, is that decisions may be made without accurate and complete information thereby increasing the risk of unknown cost overruns. It is important that all reports used to manage a construction project include accurate and complete information.

For all construction projects, the Facilities Department should reconcile their construction cost summaries with the costs in the Banner system. This would provide the Facilities Department the ability to monitor all construction costs in addition to contractor payments on a timely basis and allow them to make more informed decisions to help prevent cost overruns.

MANAGEMENT RESPONSE

We agree. Construction project budgets utilized by Facilities to manage projects will be reconciled to the budget activity maintained in the Banner system on a regular basis.



BEST PRACTICE

1. The University should consider the implementation of a construction Project Oversight Committee for all new or renovation construction projects in excess of one million dollars. The Pollock renovation monitoring process has demonstrated the benefits of a multidisciplinary approach to provide good management and monitoring of construction projects.



POLLOCK ESTATE REDEVELOPMENT PROJECT
SUMMARY OF PROJECT BUDGET/PAYMENTS REQUESTED TO DATE
 January 25, 2013

| DESCRIPTION OF PROJECT CATEGORY | ORIGINAL BUDGET | REVISED BUDGET | BUDGET TRANSFERS AND CHANGE | | ADJUSTED BUDGET | NET PAYMENT REQUESTED | PAYMENT BALANCE AVAILABLE | RETAINAGE AMOUNT | TOTAL PAYMENT APPROVED | PAYMENT PERCENT APPROVED | BILLED MONTH APPROVED THRU DATE |
|---|------------------|------------------|-----------------------------|--|------------------|-----------------------|---------------------------|------------------|------------------------|--------------------------|---------------------------------|
| | | | ORDERS | | | | | | | | |
| DECONSTRUCTION - TRI-C CONSTRUCTION COMPANY | 700,000 | 437,190 | 0 | | 437,190 | 437,190 | 0 | 0 | 437,190 | 100.00% | FINAL |
| DECONSTRUCTION SALVAGE VALUE FUNDS | 0 | (20,550) | 0 | | (20,550) | (20,550) | 0 | 0 | (20,550) | 100.00% | FINAL |
| FENCE RENTAL - SUMMIT FENCE SUPPLY, LLC | 0 | 681 | 0 | | 681 | 681 | 0 | 0 | 681 | 100.00% | FINAL |
| MANSION RESTORATION CONTRACT | 1,737,500 | 0 | 0 | | 0 | 0 | 0 | 0 | 0 | 0.00% | N/A |
| GENERAL CONTRACTOR - DSV BUILDERS | 0 | 2,218,800 | 317,467 | | 2,536,267 | 2,536,267 | 0 | 0 | 2,536,267 | 100.00% | FINAL |
| PLUMBING CONTRACTOR - KOMAR PLUMBING | 0 | 152,448 | 15,909 | | 168,357 | 168,357 | 0 | 0 | 168,357 | 100.00% | FINAL |
| MECHANICAL CONTRACTOR - YORK MAHONING | 0 | 198,000 | 3,705 | | 201,705 | 201,705 | 0 | 0 | 201,705 | 100.00% | FINAL |
| ELECTRICAL CONTRACTOR - UNIVERSITY ELECTRIC | 0 | 350,771 | 12,086 | | 362,857 | 362,857 | 0 | 0 | 362,857 | 100.00% | FINAL |
| FIRE PROTECTION CONTRACTOR - RNL FIRE SYSTEMS | 0 | 42,900 | 6,686 | | 49,586 | 49,586 | 0 | 0 | 49,586 | 100.00% | FINAL |
| SITE DEVELOPMENT PACKAGE | 200,000 | 0 | 0 | | 0 | 0 | 0 | 0 | 0 | 0.00% | N/A |
| CARRIAGE HOUSE - DVS BUILDERS | 500,000 | 50,000 | (50,000) | | 0 | 0 | 0 | 0 | 0 | 0.00% | N/A |
| FURNISHING/WINDOW TREATMENTS/OUTDOOR FURNISHINGS | 126,500 | 126,500 | (30,666) | | 95,834 | 95,834 | 0 | 0 | 95,834 | 100.00% | FINAL |
| KITCHEN EQUIPMENT | 75,000 | 51,218 | (29,278) | | 21,940 | 21,940 | 0 | 0 | 21,940 | 100.00% | FINAL |
| LANDSCAPING CONTRACTOR - LANDSCAPE BY DESIGN | 200,000 | 59,690 | 8,715 | | 68,405 | 68,405 | 0 | 0 | 68,405 | 100.00% | FINAL |
| ARCHITECT FEES | 510,450 | 485,460 | (15,887) | | 449,573 | 449,573 | 0 | 0 | 449,573 | 100.00% | FINAL |
| ARCHITECT CHANGE ORDER FEE ALLOWANCE | 67,000 | 67,000 | (58,489) | | 8,511 | 8,511 | 0 | 0 | 8,511 | 100.00% | FINAL |
| CONSTRUCTION CONTINGENCY ALLOWANCE | 353,550 | 239,960 | (236,065) | | 0 | 0 | 0 | 0 | 0 | 98.38% | N/A |
| SECURITY SYSTEM EQUIPMENT PROVIDED BY IT DEPARTMENT | 0 | 25,000 | (11,360) | | 13,640 | 13,640 | 0 | 0 | 13,640 | 100.00% | FINAL |
| TERMITE CONTROL - TERMINIX | 0 | 4,932 | 0 | | 4,932 | 4,932 | 0 | 0 | 4,932 | 100.00% | FINAL |
| LAWN SPRINKLER COST | 0 | 0 | 11,355 | | 11,355 | 11,355 | 0 | 0 | 11,355 | 100.00% | FINAL |
| PORTABLE RAMPS | 0 | 0 | 1,380 | | 1,380 | 1,380 | 0 | 0 | 1,380 | 100.00% | FINAL |
| FISHER ENGINEERING SERVICES | 0 | 0 | 750 | | 750 | 750 | 0 | 0 | 750 | 100.00% | FINAL |
| DAVEY TREE SERVICE - TREE REMOVAL FRONT OF HOUSE | 0 | 0 | 2,150 | | 2,150 | 2,150 | 0 | 0 | 2,150 | 100.00% | FINAL |
| ENVIRONMENTAL PROTECTION SYSTEMS, LLC | 0 | 0 | 4,300 | | 4,300 | 4,300 | 0 | 0 | 4,300 | 100.00% | FINAL |
| DAVEY TREE SERVICE - TREE AND BRUSH REMOVAL | 0 | 0 | 4,750 | | 4,750 | 4,750 | 0 | 0 | 4,750 | 100.00% | FINAL |
| STANLEY SOLUTIONS - KEYING SYSTEM | 0 | 0 | 828 | | 828 | 828 | 0 | 0 | 828 | 100.00% | FINAL |
| YOUNGSTOWN VINDICATOR - BID PUBLICATIONS | 0 | 0 | 4,311 | | 4,311 | 4,311 | 0 | 0 | 4,311 | 100.00% | FINAL |
| PACKER THOMAS | 0 | 0 | 37,353 | | 37,353 | 37,353 | 0 | 0 | 37,353 | 100.00% | FINAL |
| TOTAL | 4,470,000 | 4,470,000 | 0 | | 4,468,105 | 4,468,105 | 0 | 0 | 4,468,105 | | |

The budget has been adjusted to actual payouts which is under the original budget by \$3,895



PACKER · THOMAS

Certified Public Accountants & Business Consultants

Youngstown State University
Internal Audit- Packer Thomas
Internal audit contract year 2012-2013

Summary of hours through January, 2013

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| Internal audit project | Hours through January 2013 | Status of project |
|--|----------------------------|-------------------|
| Accounts payable | 442 | 100% complete |
| Student affairs | 119 | 30% complete |
| Student accounts | 616 | 100% complete |
| Continuous monitoring | 73 | 50% complete |
| Risk Assessment, Board Meetings, ERIP, misc. | 215 | Continuous |
| Total hours to date | 1465 | |

| | | |
|--------------------|----|---------------|
| Total contract | \$ | 226,000 |
| Services to date | \$ | 181,643 |
| Contract remaining | \$ | <u>44,357</u> |

Youngstown State University
New GASB Pension Accounting and Reporting Standards
January 31, 2013

On June 25, 2012, the Governmental Accounting Standards Board (GASB) approved two new accounting standards – GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* that will result in significant accounting and reporting changes for Youngstown State University and other governmental employers that participate in cost-sharing, multi-employer defined benefit pension plans, such as OPERS and STRS. This briefing provides an overview of the accounting and reporting changes and their impact on Youngstown State University.

GASB 67, which is effective in FY2014, applies to pension plans. GASB 68, which is effective in FY2015, applies to employers who provide pensions to their employees. Under GASB 68, cost-sharing employers will be required to report a net pension liability, based on their proportionate shares of the collective net pension liability of all employers in the plan. Under current accounting rules, these net pension liabilities, more commonly known as unfunded liabilities, are disclosed in the pension plans' footnotes but are not recorded on the pension plans' balance sheets. For OPERS and STRS, these unfunded liabilities are in the tens of billions of dollars. Although not yet determined, YSU's share of these liabilities will be in the millions of dollars.

In addition, GASB 68 will also have a dramatic impact on the calculation of the University's Senate Bill 6 ratios (S.B. 6) and composite score. Under current administrative rules set forth by the Ohio Board of Regents, an institution may be placed on "fiscal watch" if its S.B. 6 composite score falls below 1.75 for two or more years. It is anticipated that YSU's S.B.6 score (and the scores of many other state-supported institutions) would fall below the fiscal watch threshold.

When these new standards were proposed in 2011, we consulted with the University's external auditors and colleagues at other institutions, who had also consulted with the National Association of College and University Business Officers (NACUBO) regarding the proposed accounting changes. Based on these discussions, the University took the position that the proposed allocation of unfunded OPERS and STRS liabilities had no support under Ohio law, was misleading and arbitrary and would raise significant audit and regulatory concerns. In collaboration with the Inter-University Council (IUC), the University submitted a comment letter to the GASB, which was unanimously endorsed by the 14 public institutions in the State of Ohio. NACUBO, OPERS and STRS also submitted comment letters expressing similar concerns. In a conference call with NACUBO and GASB project staff, these concerns were reiterated and information specific to the State of Ohio's cost-sharing, multi-employer plans was provided. Unfortunately, GASB proceeded to approve the new standards with few or no changes to its original proposals.

The University has taken advantage of training opportunities provided by audit firms, NACUBO and OACUBO to prepare for the implementation of this standard. Due to the scope of the changes, OPERS will be completing a full-blown test implementation in 2013. The University has agreed to participate.

We will continue to consult with the external auditors, IUC colleagues, and the Ohio Board of Regents and to participate in ongoing training regarding the impact of these new accounting standards. Updates to the Audit Sub Committee will be provided as appropriate.