Background Information

The Clinical Sciences department resides within the College of Veterinary Medicine and Biomedical Sciences (CVMBS) and has a mission to assure the health and productivity of animals to meet societal needs through high quality educational programs for professional veterinary medical students, graduate veterinarians, and the public through a faculty and veterinary medical center of excellence, and to advance and disseminate comparative biomedical knowledge in an environment of interdisciplinary collaboration. The department strives to be the globally recognized leader in veterinary medical research, teaching and clinical care to advance medicine for the benefit of animals and people.

Scope and Objectives

The audit covered the financial and operational activities of the Clinical Sciences department within the College of Veterinary Medicine and Biomedical Sciences, department number 1678, for the period July 1, 2012 through October 31, 2013. The audit objectives were as follows:

1. Verify that mission, goals and objectives exist and whether they are measurable and continually evaluated.
2. Determine if internal controls exist and are in practice on a daily basis.
3. Verify that administrative and financial policies and procedures exist and are followed.

Results and Conclusions

The initial risk assessment process calculated this as HIGH risk operation. During the audit, we assessed controls, processes and procedures designed to mitigate risks. Based on the audit, we concluded that the risk mitigation activities provide a MEDIUM residual risk level.

Based on the audit objectives listed above, we made the following recommendations, based on the audit findings:

1. The Clinical Sciences Business Officer should consider preparing General Error Corrections for VTH billings to ensure they are recorded to the appropriate object code; however, because this is not an efficient process, a long-term solution should be considered.
2. Ensure Pcard statements are reviewed and signed in a timely manner, and consider distributing some of the responsibility of approving Pcard statements so that Pcard transactions can be thoroughly reviewed for errors or inappropriate expenses.
3. Implement a procedure to provide for continual monitoring of travel expenses for proper authorizations, completeness of documentation, and appropriateness of expenses. Clinical Sciences Business Officer should also review the signature approval list for Clinical Sciences maintained by the CSU Travel Office to ensure it lists the appropriate individuals and that only these individuals are pre-approving travel expenses...
4. Implement a process to periodically review leave balances to identify employees with large leave balances and ensure that 1) employees are accurately reporting sick and annual leave and 2) employees are continually encouraged to use leave earned.

5. Document policies and procedures for managing the Continuing Education subfund accounts.

6. Remind staff of the need to deposit cash receipts in a timely manner and update departmental cash handling procedures to ensure that the safe is physically secure, the safe combination is changed at least annually or when employees separate, personal banking information is removed from support documentation in Kuali, and additional oversight is in place to ensure cash receipt records are complete.

7. Develop consistent policies and procedures over service sales accounts receivable to improve controls over service billings, which should provide for the ability to easily identify pending services, completed services, billed and unbilled services, payments received, and collection efforts. Clinical Sciences should also consider the use of the university's accounts receivable system to ensure receivables and revenue are properly recorded and recorded in a timely manner.

We have discussed all findings and recommendations with management, and are satisfied that completion of the proposed actions will mitigate the issues noted. Follow-ups to implementation of recommendations will occur based on targeted completion dates.

Details of findings and recommendations may be found in Audit Report 14-12 issued the same date as this Executive Summary.

We would like to express our appreciation to CSU management and staff for their assistance and cooperation during the audit.

Allison A. Horn – Director, Internal Auditing
TO: Anthony A. Frank, President  
Colorado State University

FROM: Allison A. Horn, Director  
Internal Auditing

SUBJECT: 14-12 CVMBS Clinical Sciences

AUDITOR: Susy Serrano

Background

The Clinical Sciences department resides within the College of Veterinary Medicine and Biomedical Sciences (CVMBS) and has a mission to assure the health and productivity of animals to meet societal needs through high quality educational programs for professional veterinary medical students, graduate veterinarians, and the public through a faculty and veterinary medical center of excellence, and to advance and disseminate comparative biomedical knowledge in an environment of interdisciplinary collaboration. The department strives to be the globally recognized leader in veterinary medical research, teaching and clinical care to advance medicine for the benefit of animals and people.

Clinical Sciences is funded from a variety of sources, including appropriated funds, sponsored funds, gift funds, general operations, recharge, and other several others. The largest source of funding for Clinical Sciences during Fiscal Year 2013 was sponsored program funding, for which it recorded $16.7 million in contract and grant revenue, followed by the Professional Veterinary Medicine appropriation of $8.9 million, then the Gifts of $3.1 million.

Below is a breakdown of FY12 and FY13 actual expenses for Clinical Sciences. According to Clinical Sciences staff, this is likely attributed to a decrease in contract/grant funding for FY13.

<table>
<thead>
<tr>
<th>Expense Category</th>
<th>FY 2012 Actuals</th>
<th>FY 2013 Actuals</th>
<th>DIFFERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>468,924.35</td>
<td>356,544.43</td>
<td>(107,379.92)</td>
</tr>
<tr>
<td>Compensation</td>
<td>22,705,931.77</td>
<td>21,694,899.99</td>
<td>(1,011,031.78)</td>
</tr>
<tr>
<td>General Expense</td>
<td>12,647,389.88</td>
<td>10,707,503.05</td>
<td>(1,939,886.83)</td>
</tr>
<tr>
<td>Indirect Cost Recovery</td>
<td>4,328,721.93</td>
<td>3,385,696.16</td>
<td>(943,025.77)</td>
</tr>
<tr>
<td>Transfer of Funds-Expense</td>
<td>159,746.24</td>
<td>252,198.99</td>
<td>92,452.75</td>
</tr>
<tr>
<td>Travel</td>
<td>1,665,600.52</td>
<td>1,306,766.05</td>
<td>(358,834.47)</td>
</tr>
<tr>
<td>Totals</td>
<td>41,971,314.69</td>
<td>37,703,608.67</td>
<td>(4,267,706.02)</td>
</tr>
</tbody>
</table>

Scope of Examination

The audit covered the financial and operational activities of the Clinical Sciences department within
the College of Veterinary Medicine and Biomedical Sciences, department number 1678, for the period July 1, 2012 through October 31, 2013. The audit objectives were as follows:

1. Verify that mission, goals and objectives exist and whether they are measurable and continually evaluated.
2. Determine if internal controls exist and are in practice on a daily basis.
3. Verify that administrative and financial policies and procedures exist and are followed.

To answer the audit objectives, we interviewed Clinical Sciences staff, reviewed the strategic plan, reviewed the adequacy of existing policies and procedures, reviewed applicable internal and external governing criteria, reviewed controls over administrative and financial procedures, performed detailed testing over administrative and financial procedures, and other procedures we considered necessary. We would like to thank the Clinical Sciences staff, as they were very cooperative and receptive to opportunities for improvement as they were presented throughout the audit.

**Findings and Conclusions**

We observed that Clinical Sciences has developed a strategic plan and is currently in the process of developing performance metrics consistent with its objectives. We also found that internal controls generally exist and are in practice on a daily basis, and administrative and financial policies and procedures are generally followed. The tone at the top of the organization is one of promoting academic excellence, outreach, and service while recognizing the importance of financial and administrative policies and procedures. We identified several opportunities where controls could be improved and/or compliance with administrative and financial policies could be improved.

**General Expense Classification**

The Veterinary Teaching Hospital (VTH) bills the various CVMBS departments, including Clinical Sciences, for veterinary services provided, such as MRIs, anesthesia, pharmacy items, medical supplies, etc.; however, all of these expenses are being charged to the general supplies object code and Clinical Sciences does not prepare General Error Correction documents for these items to move the expenses to the appropriate expense category. This appears to be a systemic weakness, as a default object code is programmed into Chimera, the VTH billing system. According to CVMBS staff, the billing system has limited capabilities and can only charge a billing to a single account number and object code, resulting in improper classification of general expenses.

**Recommendation 1**

The Clinical Sciences Business Officer should consider preparing General Error Corrections for VTH billings to ensure they are recorded to the appropriate object code; however, because this is not an efficient process, a long-term solution should be considered.

**Response of the University to Recommendation 1**

Agree. Because of the volume of transactions, it would be difficult to prepare General Error Corrections for each VTH billing. However, the college acknowledges that the current billing system used by the Veterinary Teaching Hospital is inadequate. A review process is currently underway to identify a new
billing system that will aide in correcting the inefficiencies in the current system. Once the new billing system is implemented we will ensure that VTH billings are recorded to the appropriate object code. Target date: June 30, 2016.

Pcard Signatures

A review of Clinical Sciences Pcard statements showed that the cardholders were timely in signing statements, but the approving official was consistently missing the deadline. The University Pcard Handbook indicates that all Pcard statements must be signed by the cardholder and the approver by the 30th of the following month. It was noted that the Business Officer is the approving official for 107 of 110 cardholders, which is a considerable workload, along with the Business Officer’s other duties, for ensuring timely and thorough review and approval of all of these statements. Timely review and approval of Pcard transactions ensures that inappropriate expenses are identified and corrected in a timely manner. The Business Officer also indicated that efforts have been made to expedite the review and approval of Pcard activity.

Recommendation 2

The Clinical Sciences Business Officer should ensure Pcard statements are reviewed and signed in a timely manner, and consider distributing some of the responsibility of approving Pcard statements so that Pcard transactions can be thoroughly reviewed for errors or inappropriate expenses.

Response of the University to Recommendation 2

Agree. The Business Officer has realigned duties to recognize the priority of Pcard approval signatures and will continue to monitor this task in order to meet the recommendation. Target Date: July 31, 2014.

Travel

Clinical Sciences was not always in compliance with travel policies and procedures; specifically, it was noted that among 30 travel transactions, 8 instances occurred in which pre-trip authorization did not occur, was provided by an unauthorized individual, or the documented pre-trip authorization could not be located. In other instances, travel was not well justified for two travel documents, and the traveler was reimbursed an incorrect amount in two instances, one of which appears to have resulted in a $100 overpayment to the traveler.

Over the last several years, Clinical Sciences has experienced high turnover in administrative staff, and Clinical Sciences had an interim department head for a period of 18 months, which resulted in instability in administrative management during this time period. Clinical Sciences has since made an effort to improve controls over travel, the department head issued a memo to faculty and administrative staff in January 2014 to remind them of the travel policies and proper authorization. This is a positive step in improving overall compliance issues related to travel, and continued oversight of travel expenses will provide additional assurance that travel expenses are appropriate and consistent with the departmental and university missions.
Recommendation 3

In addition to the memo issued by Clinical Sciences, the Clinical Sciences department head should implement a procedure to provide for continual monitoring of travel expenses for proper authorizations, completeness of documentation, and appropriateness of expenses. The Clinical Sciences Business Officer should also review the signature approval list for Clinical Sciences maintained by the CSU Travel Office to ensure it lists the appropriate individuals and that only these individuals are pre-approving travel expenses; however, it is acknowledged that this control is only effective if the Travel Office updates the list upon notification by Clinical Sciences.

Response of the University to Recommendation 3

Agree. In addition to the above mention memo, the current Department/College/University travel policy is now posted on the departmental web page. The policy was also discussed at the January 29, 2014 departmental faculty meeting. The Department of Clinical Sciences will be part of a College-wide implementation of a new online pre-trip travel submission form. This will decrease the time required for filling out, submission and review of the travel forms. In addition, the College office has indicated that they are tracking late travel pre-approval requests and will formulate a policy for noncompliance with the travel policies. Target date: December 31, 2014.

Leave Reporting

Certain faculty, administrative professional, and state classified employees are eligible to accrue annual leave each pay period, and the CSU Human Resource Manual caps annual leave carryover from one fiscal year to the next at 48 days for those eligible to accrue annual leave. It was noted that 30 of 126 employees accruing leave during Fiscal Year 2013 either had no reported paid leave taken and exceeded the annual leave cap (12), had no leave reported during the entire fiscal year (8), or had some leave reported but still exceeded the annual leave cap (10).

This is possibly because employees are either not reporting leave when it is taken or are not encouraged to use annual leave earned. If employees are not properly reporting leave taken, the employee’s leave balances in Oracle do not accurately reflect exceptions to the employee’s regular time. Because employees separating from the University are paid for their remaining annual leave according to a formula set forth in the HRS manual, the University could incur an additional cost to pay the employee’s leave balances when they leave the University. Annual leave taken should be encouraged to the extent possible to avoid employee burnout and to foster overall employee productivity and creativity.

Recommendation 4

The Clinical Sciences Department Head should implement a process to periodically review leave balances to identify employees with large leave balances and ensure that 1) employees are accurately reporting sick and annual leave and 2) employees are continually encouraged to use leave earned.
Response of the University to Recommendation 4

Agree. The Department of Clinical Sciences will send faculty and staff a quarterly leave report for their review and approval. The reports will also be reviewed by the Business Officer, or his/her designee, and any large leave balances or discrepancies in reported leave taken (when identified) will be reported to the Clinical Sciences Department Head. Target date: December 31, 2014.

Continuing Education Procedures

Clinical Sciences does not have documented policies and procedures to manage the continuing education subfund accounts, despite the complexity of the accounting of revenues and expenses related to these accounts. Clinical Sciences faculty work with the Online Plus division to offer continuing education courses, conferences, and materials to veterinary professionals; and courses are available for purchase on the Online Plus website. These courses and materials are developed by Clinical Sciences faculty, and revenue generated from these courses (after deduction of an overhead charge) is distributed to a departmental continuing education account by Online Plus.

Clinical Sciences maintains good accounting procedures over continuing education funds by using a system of subaccounts to track course revenues and expenses by faculty member/course, as well as for general administration. Clinical Sciences also has policies and procedures in place to monitor the accounts and to avoid overspending on the departmental account; however, these policies and procedures are not documented. Without written policies and procedures over the continuing education accounts, Clinical Sciences cannot ensure the procedures are applied consistently and that procedures are effectively communicated to accounting staff, particularly during times of high staff turnover.

Recommendation 5

The Clinical Sciences Business Officer should document policies and procedures for managing the Continuing Education subfund accounts.

Response of the University to Recommendation 5

Agree. The Department of Clinical Sciences will write and keep updated a policy and procedure manual regarding the management of continuing education subfund accounts. Target date: September 30, 2014.

Cash Handling

It was noted that Clinical Sciences was not always in compliance with University cash handling policies and procedures; specifically, a review of cash receipts over a 4-month period showed that 29 of 90 cash receipts reviewed were not deposited in a timely manner. Colorado State University Financial Procedure Instructions FPI 6-1, "Receipt and Deposit of Cash and Checks" states that all receipts intended for the University must be properly accounted for, carefully safeguarded, and promptly delivered to the University Cashier's Office. In addition, Clinical Sciences has implemented additional best practices for cash handling within the department through a departmental policy and procedure document.
Departments are responsible for ensuring proper segregation of duties for cash receipts and for depositing cash receipts immediately when they total $500 or more, or monthly for receipts up to $500. The majority of these were deposited only several days late, although several receipts were deposited several weeks to nearly a month late. It was also noted that at the start of the audit, the Clinical Sciences safe was not in a secure location, and the combination had not been changed over a long period of time, despite high employee turnover. The safe has since been relocated and the combination changed. Cash receipts are often supported in Kuali by scanned copies of personal checks, and while this is a good effort to attach strong supporting documentation, personal banking information is inadvertently made available to other KFS users. It was also noted that although Clinical Sciences makes an effort to segregate the duties of cash collection and deposit, all accounting technicians have access to the cash receipts log, which allows for the manipulation of cash receipt records by the person making the deposit. Improper safeguarding and untimely deposit of cash receipts increases the risk of lost or stolen cash and checks.

**Recommendation 6**

The Clinical Sciences Business Officer should remind staff of the need to deposit cash receipts in a timely manner and update departmental cash handling procedures to ensure that the safe is physically secure, the safe combination is changed at least annually or when employees separate, personal banking information is removed from supporting documentation in Kuali, and additional oversight is in place to ensure cash receipt records are complete.

**Response of the University to Recommendation 6**

Agree. The Business Officer in the Department of Clinical Sciences has reviewed the cash handling policies with the accounting team regarding timeliness of deposits and all deposits will be done upon receipt on a daily basis per the recommendation of FPI 6-1. Cash receipts will not contain personal banking information unless absolutely necessary. In those cases, all personal banking information will be blacked out prior to attaching to the cash receipt. The cash receipt log will be reconciled on a monthly basis and the Business Officer will also review and ensure deposits are recorded accurately. Target date: September 30, 2014.

**Service Sales Billings**

It was noted that controls over service revenue could be improved. The Clinical Sciences department sells various services to internal and external customers on a fee for service basis. These services include Pharmacology Core services, infectious disease testing, shared equipment use, Equine Orthopedic Laboratory services, research and consultation services, endocrinology, and other services. The Business Officer and an accounting technician oversee the financial activities in the 21 and 22 accounts, the accounts used for sales and services. These individuals use some invoice logs and cash receipt logs to track invoices and receipts related to these service sales. Although efforts were made to record revenue in the period it was earned in accordance with the accrual method of accounting, this did not always occur. Some controls are in place to manage accounts receivable, but the use of invoice logs was inconsistent, and the cash method is generally used to record revenue (recording revenue at the time cash is received rather than at the time revenue is earned). Improved
controls over service revenue and receivables will provide better assurance that revenue and related receivables are complete, current, and properly recorded.

**Recommendation 7**

The Clinical Sciences Business Officer should develop consistent policies and procedures over service sales accounts receivable to improve controls over service billings, which should provide for the ability to easily identify pending services, completed services, billed and unbilled services, payments received, and collection efforts. Clinical Sciences should also consider the use of the University's accounts receivable system to ensure receivables and revenue are properly recorded and recorded in a timely manner.

**Response of the University to Recommendation 7**

Agree. The Business Officer in the Department of Clinical Sciences has requested implementation of an electronic accounts receivable system in the department to ensure consistent and timely recording of all receivables. All accounting technicians managing any type of cash activity will be required to use this system and the Business Officer will review reports quarterly to ensure proper recording of receivables. Receivables will also be accrued at the end of the fiscal year to ensure proper recording of revenues in period earned. Timeline is dependent on identification and implementation of the appropriate accounts receivable software. Target date: December 31, 2014.

AAH/SS/amr

cc: Michael Martin
    Dennis Flores
    Joseph Zimlich
    Alexandra Bernasek
    Nigel Daniels
    Brad Schiffelbein
    David Ryan
    Mark Stetter
    Chris Orton
    Wayne Jensen
    Thom Hadley
    Keith Wilson
    Candice Hastings

cc Executive Summary only:
    Dorothy Horrell
    Michael Nosler
    Richard Schweigert