REPORT TO MANAGEMENT ON
REVIEW OF RECONCILIATIONS
LAMAR INSTITUTE OF TECHNOLOGY
MARCH 2002
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March 4, 2002

Dr. Robert Krienke, President
Lamar Institute of Technology
P.O. Box 10043
Beaumont, TX 77710

Dear Dr. Krienke:

Enclosed is a copy of Report to Management on Review of Reconciliations, March 2002. The Internal Audit Plan for fiscal year 2002 provides for a review of reconciliations. The scope of the review was to determine if Lamar Institute of Technology (Institute) performed reconciliations consistently and on a timely basis. Also, Internal Audit was to determine if the Institute performed reconciliations accurately and in conformity with written policies and procedures. Finally, we reviewed the accuracy of the records and the internal controls surrounding the various reconciliation processes. The period subject to review was fiscal year ended August 2001 to date.

The audit is classified as a Category II based on criteria prescribed by the Rules and Regulations of The Texas State University System.

During our review we noted that the Institute’s reconciliation procedures and internal controls associated with this process were adequate, although not completely without deficiencies. Those that do exist are not considered to have a material effect on the Institute’s operations and are estimated to be easily remedied. Areas for improvement are to develop formal, detailed cash reconciliation procedures, complete the reconciliation with the preparer’s and/or reviewer’s signature and date, identify and dispose of reconciling items timely, and prepare reconciliation timely and accurately.

I thank all the personnel in the accounting office for their cooperation and responses during the course of this review.

If you should have comments or questions, I am available at your convenience to review the report.

Sincerely,
Twila J. Baker, CPA
Director of Internal Audit
OBJECTIVES

The Internal Audit Plan for fiscal year 2002 provides for a review of reconciliations. The period subject to review was fiscal year ended August 2001 to date.

The objectives of this review were to determine that:

- Various reconciliations are performed consistently and on a timely basis;
- Reconciliations are accurate and conform with written policies and procedures;
- Reconciling items are resolved promptly and are not continued in the reconciliation process for a lengthy period of time;
- Proper segregation of duties for personnel who prepare various reconciliations exists;
- Management reviews the reconciliations in a timely manner; and
- Policies and procedures as they relate to reconciliations are current and accurate with existing State and Federal rules and regulations.

In order to achieve the above objectives, Internal Audit reviewed the following:

- Bank Account Reconciliation - dated September 31, 2001 to December 31, 2001;
- Accounts Payable Reconciliation - dated August 31, 2001;
- Due/To From Reconciliation - dated August 31, 2001 and December 31, 2001;
- Appropriation Reconciliation - dated October 31, 2001 to November 30, 2001;
- Travel Advance Reconciliation - dated September 19, 2001 to December 4, 2001;
- Investment Reconciliation - dated August 31, 2001 to December 31, 2001;
- Capitalization Reconciliation - dated September 31, 2001 to December 31, 2001;
- Daily Cash Reconciliation - dated month of January 2002;
- Third Party Reconciliation - dated December 31, 2001;
- Policies and procedures for the preparation of the various reconciliations; and
- Reconciling items for entries made during the time period.

Also, we interviewed the finance office personnel.

The audit is classified as a Category II based on criteria prescribed by the Rules and Regulations of The Texas State University System.
BACKGROUND

Reconciliations are the comparison of data from financial reports generated from internal and external sources. Examples of financial reports include, but are not limited to, vouchers, departmental reports, and bank statements. This control activity helps ensure the accuracy and completeness of transactions posted to the department’s accounts.

The main purpose for reconciling is:

1) To ensure expenditures charged to a department’s accounts are authorized and posted to the correct accounts.
2) To ensure revenues earned are posted and collections are credited to the correct accounts.

Also, to ensure that the reconciliations process is effective, duties should be segregated to prohibit those who handle cash or approve expenditures from performing the reconciliations.

Finally, all reconciliations should be performed in a timely manner, usually monthly.

1) Obtain monthly departmental financial reports from the Institute’s Accounting Department.
2) Compare the current month’s beginning balance to the prior month’s ending balance.
3) Verify expenditure and revenue transactions in the financial reports with supporting documentation and check for mathematical and clerical accuracy.
4) Review monthly financial reports to determine whether adjusting entries have been posted from the prior month’s reconciliation.
5) Prepare reconciliation reports for management’s review and approval.

RESULTS OF REVIEW

During our review we noted that the Institute’s reconciliation procedures and internal controls associated with this process were adequate, although not completely without deficiencies. Those that do exist are not considered to have a material effect on the Institute’s operations and are estimated to be easily remedied. Areas for improvement are to develop detailed cash reconciliation procedures, complete the reconciliation with the preparer’s and/or reviewer’s signature and date, identify and dispose of reconciling items timely, and prepare reconciliation timely and accurately.
CONCLUDING REMARKS

Lamar Institute of Technology has good internal controls over reconciliations. Also, segregation of duties exists to limit opportunities employees might otherwise have to divert funds to their use. Finally, the employees are cross-trained when the responsible person is not available in the office to perform the reconciliation.

We appreciate the assistance provided to Internal Audit by the staff during the course of this review.
REPORT TO MANAGEMENT ON
REVIEW OF RECONCILIATIONS

LAMAR INSTITUTE OF TECHNOLOGY
MARCH 2002

Copies of this report have been mailed to the following:

Lamar University
Dr. Robert Krienke, President
Mr. Jonathan Wolfe, Vice President for Finance and Operations

The Texas State University System
Mr. J. Wiley Thedford, Vice Chancellor for Finance
Mr. Jerry W. Neef, Director of Audits and Analysis

Project Auditors
Ms. Twila Baker, Project Director
Ms. Daphne McIntire, Project Auditor
NEED TO DEVELOP FORMAL POLICIES AND PROCEDURES

Lamar Institute of Technology (Institute) does not have adequate cash reconciliation procedures for the following reconciliations:

- Cash Reconciliation SIS to Deposit
- Daily Cash Reconciliation SIS to FRS
- Cash Clearing Reconciliation
- Cash Receipts Reconciliation
- Credit Card Reconciliation

The above reconciliations do not have any formal procedures, which enable a new person assuming the duties of an employee in this department, to carry out these procedures.

However, the Institute has adequate and detailed reconciliation procedures for the following key areas:

- Appropriation Reconciliation (Cost Center)
- Capitalization Reconciliation
- Bank Reconciliation
- Investments Reconciliation
- Due To/From Reconciliation
- Accounts Payable Reconciliation
- Advance Travel Account Reconciliation
- Third Party Reconciliation

RECOMMENDATION

We recommend management develop formal, detailed cash reconciliation procedures to ensure the Institute’s current assets are current, accurate, and complete. Also, reconciliation procedures will enable a new person that might have to assume the duties of an employee in the department to carry out these procedures. Finally, the procedures should indicate how often reconciliations are performed and the name of the reviewer.

MANAGEMENT'S RESPONSE

We concur with this recommendation. LIT will revise the policy and procedures for cash reconciliations to include more detail to enable a new person to assume the duties as adequately as possible. Procedures
will indicate how often and by whom the reconciliation should be reviewed.

**NEED TO PERFORM RECONCILIATIONS ACCURATELY AND IN CONFORMITY WITH WRITTEN PROCEDURES**

The Institute has not performed certain reconciliations accurately and in conformity with written procedures as follows:

- Appropriation Reconciliations (Cost Center) for the month ending September and October 2001. Overall, reconciliations were accurate. However, the preparer did not initial their name.

- Capitalization Reconciliations for the month ending September to October 2001. Overall, reconciliations were accurate. However, the reviewer did not initial their name.


<table>
<thead>
<tr>
<th>As of Month Ending</th>
<th>Balance Per Bank</th>
<th>Balance Per General Ledger</th>
<th>Unreconciled Difference</th>
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<tbody>
<tr>
<td>September 30, 2001</td>
<td>$ 20,213.39</td>
<td>$ 19,979.39</td>
<td>$ 234.00</td>
</tr>
<tr>
<td>October 31, 2001</td>
<td>$(109,732.84)</td>
<td>$(109,969.67)</td>
<td>$(236.83)</td>
</tr>
<tr>
<td>November 30, 2001</td>
<td>$ 170,742.41</td>
<td>$ 171,053.69</td>
<td>$(311.28)</td>
</tr>
<tr>
<td>December 31, 2001</td>
<td>$ 132,015.36</td>
<td>$ 132,433.4</td>
<td>$(418.04)</td>
</tr>
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- Due/To From Reconciliation for the month ending December 31, 2001. The Balance Per SIS was not reconciled with the Balance Per Financial Reporting System. The difference was $85.00. However, management is currently researching this difference.

The Institute needs to identify and dispose of this reconciling amount to ensure that the Institute’s financial records are current, accurate, and complete.

Internal Audit reviewed other reconciliations and noted no exception. All the accountants who prepared the reconciliations signed and dated the reconciliations. The Director of Accounting and the Vice President of Finance and Operation reviewed and dated the reconciliations. The reviewers used tick marks in
checking the accuracy of the amounts.

RECOMMENDATIONS

We recommend management review all reconciliations and initial and date the reconciliation as stated in the reconciliation procedures.

We recommend management identify and dispose of reconciling items timely.

MANAGEMENT'S RESPONSE

We concur with this recommendation. The Institute management will review, initial and date all reconciliations as stated in the reconciliation procedures. Procedures will be revised to include identifying and disposing of reconciling items in a timely manner.

NEED TO PERFORM RECONCILIATIONS CONSISTENTLY AND IN A TIMELY MANNER

The Institute has not performed certain reconciliations consistently and timely as stated in the reconciliations procedures as follows:

- Institute Bank Reconciliation Procedure states that Bank 65 reconciliation is done monthly. Internal Audit reviewed the reconciliations for the month ending August 31, 2001 to December 31, 2001. We noted for the month ending as of August 31, 2001, the reconciliation was done in October. Also, for the month ending as of September 30, 2001, the reconciliation was done in November.

- Capitalization Reconciliation Procedure states that inventory reconciliation is done monthly. Internal Audit reviewed the reconciliations for the month ending September 31, 2001 to October 31, 2001. We noted for the month ending as of September 30, 2001, it was reconciled in November. Internal Audit tried to review November and December reconciliations, but the Institute has not done the reconciliation.

- Advance Travel Account Reconciliation Procedure states that advance travel reconciliation is done monthly. Internal Audit reviewed the reconciliations as of August 2001 to January 2002. We noted the Institute has not done October and November reconciliations.
Internal Audit reviewed other reconciliations and noted no exception.

**RECOMMENDATION**

We recommend management perform reconciliations consistently and timely as stated in the reconciliation procedures.

**MANAGEMENT’S RESPONSE**

We concur with this recommendation. The Institute management requires that reconciliations be performed consistently and timely. Management will ensure that reconciliations are performed consistently and timely.