

Reportable Conditions

2006-1 Segregation of Duties

Auditor's comment:

Due to the small size of the Institute staff, there is a lack of segregation of duties. The lack of segregation creates instances in which one individual may perform both custodial and recording functions of certain assets. The basic premise of control is that no one employee should have access to both physical assets and related accounting records or to all phases of a transaction. We noted the following areas in which a lack of segregation of duties existed during the year ended June 30, 2006:

- Custody of signed checks before mailing is not handled by someone independent of all payable, disbursing, cash, receiving, and general ledger functions.
- Persons authorized to initiate banking transactions are not prohibited from having access to the accounting records.
- Personnel in the payables function are not independent of purchasing, disbursing, and general ledger functions.
- Persons preparing the payroll are not independent of other payroll duties (such as timekeeping, distribution of checks), and they have access to other payroll data and cash.

We suggest that management continue to review its internal control structure and segregate duties among its staff to the greatest extent possible. Individuals outside of accounting can be used to mitigate situations where incompatible duties exist. We also recommend that crosstraining and backup procedures be put into place for all accounting functions.

Management's response:

Management will review its current internal control structure in an attempt to further segregate duties among staff where possible. Management is currently implementing procedures whereby certain high-level management personnel not involved in the accounting functions, are brought into the disbursement processes and other processes when practical. Additionally, management currently does, and will continue to cross-train all individuals involved in the accounting functions.

Reportable Conditions (Continued)

2006-2 Fraud Risk Assessment

Auditor's comment:

We noted that the Institute has not developed a formal fraud risk assessment and monitoring program that is appropriate for the size and complexity of the Institute with the aim to identify specific fraud risks and to take appropriate action to reduce or eliminate the risks. Since the Institute has not developed its internal control system to include an appropriate system for segregation of duties, certain fraud risks may exist or may be created as business practices change in the future. We continue to recommend that management schedule a periodic meeting to discuss the areas in which the Institute may be vulnerable to fraud and develop and implement processes to help mitigate these risks as they arise. We additionally stress the importance of the Board of Directors being advised of the Institute's current accounting procedures and being actively involved in the oversight of the Institute's fraud risk management program. Ongoing review and discussion of budget analysis and internal financial reports of the Institute should be performed as part of this oversight.

Management's response:

Management will work with the Chair of the Finance and Audit Committee of the Board of Directors to develop a periodic meeting schedule where current accounting procedures and fraud risk management controls may be discussed and further developed as appropriate to the Institute size and complexity. The Chair of Finance and Audit may determine the need to advise the full Board of accounting procedures and fraud risk management.

Auditor's comment:

One of the auditee's responsibilities in connection with federal awards and pass-through grants is the preparation of the Schedule of Expenditures of Federal Awards. This schedule should be complete and provided to the auditor in the planning phase of the audit engagement. This is necessary to facilitate the auditor's understanding with regard to federal and state compliance requirements that must be tested and to ensure the completeness of the final report.

The Institute had not accurately prepared this schedule to include all of the required information as of June 30, 2006. We were eventually able to identify all federal and pass-through awards, and the related expenditures, with the assistance of the Institute's staff. However this is an inefficient use of audit time, delays the completion of the engagement and creates the potential that grantor requirements could be overlooked in the execution of the audit. We recommend the Institute maintain the following information to facilitate the preparation of this report in accordance with OMB Circular A-133.

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For Research and Development, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

Management's response:

Management was not aware that the audit firm desired the grant information in the format outlined above. For the 2006-2007 audit, the Institute will accommodate this request.