

**Colorado State University**  
**Presentation of JE Approval Policy**  
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**March 8, 2005**

**I. Background for Policy Change**

A. FY 04 KPMG Audit Recommendation

1. Full Copy of CSUS Financial Statement Audit: State Auditors Web Site  
<http://www.leg.state.co.us/OSA/coauditor1.nsf/Home?openform>
2. Full Text of KPMG Audit Finding and Recommendation No. 8

**Review and Approval of Journal Entries**

During our assessment of the financial reporting process, we reviewed the controls over the initiating, reviewing and recording of the numerous manual journal entries made by CSU. During this review, we noted that CSU did have some controls over the review of journal entries. These controls included:

- Significant post-closing and closing journal entries are reviewed by upper management before the financial statements are adjusted; and
- Journal entries over \$1,000 made by departments are reviewed and approved by fund accountants.

Yet, we did note that there were some employees who had access to initiate and record journal entries without prior review and approval. Primarily, we noted that all journal entries made by fund accountants, excluding closing entries, were not required to be reviewed and approved prior to posting. Best practices in today's business environment and strong internal controls require that there be a segregation of duties regarding journal entry creation and approval. The risk to the university is that an entry could be recorded that is inaccurate, does not represent a valid business transaction, or does not properly reflect the intent of the initiator.

***Recommendation No. 8***

CSU should implement a policy which prohibits journal entries to be initiated, processed, and posted by the same employee. This policy should require knowledgeable individuals approve all journal entries prior to being posted to the general ledger. Alternatively, the university may consider setting a minimum amount over which journal entries should be approved, thus minimizing the chance that a material error could be posted in the financial system.

***Colorado State University Response:***

The University will consider setting a minimum amount over which journal entries should be approved. Implementation date – February 2005.

**II. JE Approval Policy Considerations**

**A. Review of Current Approval Policy:**

Certain campus users can currently make entries of any amount directly into FRS as long as the entries are between their own funds. (In FY 04 campus users made 47 such entries over \$100k directly into FRS.) Certain funds (12/32, 18, 53,64,7x and 88 funds and certain subcodes (2xxx,482x,8xxx,9xxx) are currently prohibited on the campus JE input screen.

**B. Cost Benefit Considerations :** Changes to our internal control environment must be determined with cost benefit considerations in mind. Given KPMG's history of materiality determinations, \$100,000 was determined to be a reasonable level of oversight over journal entries.

**III. Policy for Campus Users Inputting Journal Entries Directly into FRS –**

**A. Review and Approval:** All entries over \$100,000 made directly into FRS must be reviewed and approved by a knowledgeable individual at the campus user level.

1. All departmental entries over \$100k must be made through CSI and must be reviewed and approved by a knowledgeable approver.
2. FRS will have an edit screen that will direct campus users to CIS for all journal entries over \$100k. This will provide a system control that will prevent campus users from making journal entries over \$100k directly into FRS without approvals.
3. These entries must also be approved by a fund accountant. The fund accountant is responsible for obtaining and reviewing adequate documentation before approving such entries.

**B. Documentation and Retention –** Campus users are responsible for insuring that journal entries and associated backup information to support the entry is maintained and is readily available for audit purposes during the annual external audit process. (April – November.) Campus users must ensure that adequate journal entry backup is available for audit purposes even when selected staff may be unavailable because of sick or annual leave.

**C. Effective Date for Revised JE Approval Policy: **March 15, 2005.****