

FISMA

**CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO**

**Report Number 95-02
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ABBREVIATIONS

CSU	California State University
CSUSB	California State University San Bernardino
FISMA	Financial Integrity and State Manager's Accountability Act
HS	Health Services
IT	Information Technology
PO	Purchase Order
SAM	State Administrative Manual
SCO	State Controller's Office
SUAM	State University Administrative Manual

PURPOSE

The principal audit objective was to assess the adequacy of controls and systems which assure that:

- cash receipts are processed in accordance with laws, regulations and management's policy;
- receivables are promptly recognized and balances are periodically evaluated;
- purchases are made in accordance with laws regulations and management policy;
- revolving fund disbursements are authorized and processed in accordance with laws, regulations and management's policy;
- cash disbursements are properly authorized and are made in accordance with established procedures and adequate segregation of duties exists;
- payroll/personnel criteria for hiring employees, establishing compensation rates and authorizing disbursements are controlled and personnel and payroll are processing records and processing areas are restricted;
- purchase and disposition of fixed assets are controlled and recording of assets are made promptly in the subsidiary records;
- physical computer controls are in place and functioning;
- investments are adequately controlled and securities are safeguarded; and
- trust funds are established in accordance with SUAM guidelines.

SCOPE AND METHODOLOGY

The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests which required annualized data, the 1993-94 fiscal year was the primary period reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was July 1994 to April 1995. Our primary focus was on internal controls. Specifically, we reviewed and tested:

- posting of the original budget and major budget revisions;
- procedures for receipting and storing cash, segregation of duties involving cash receipting and recording of cash receipts;

- **establishment of receivables and adequate segregation of duties over the establishing of billing for and payment of receivables;**
- **approval of purchases, receiving procedures and reconciliation of expenditures to State Controller's balances;**
- **limitations on the size and types of revolving fund disbursements;**
- **use of petty cash funds, periodic cash counts, and reconciliation of bank accounts;**
- **authorization of personnel/payroll transactions, accumulation of leave credits in compliance with state policies and maintenance of minimum leave balances for participants in the direct deposit program;**
- **posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories;**
- **access restrictions to automated accounting systems and proper documentation of the systems;**
- **procedures for initiating, evaluating, and accounting for investments; and**
- **establishing of trust funds, separate accounting, adequate agreements, and annual budget.**

We have not performed any auditing procedures beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not discussed.

BACKGROUND

In 1983, the California Legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act required that state agencies establish and maintain a system of internal accounting and administrative control. To ensure that the requirements are fully complied with, the head of each agency is required to prepare and submit a report on the adequacy of the system of internal accounting and administrative control following the end of each odd-numbered fiscal year. Prior to 1992, the California Department of Finance had conducted these reviews. However, due to staffing reductions they are no longer conducting such audits. The Office of the University Auditor of the CSU is now responsible for conducting the audits of internal accounting and administrative control within the CSU. This report represents our biennial review.

OPINION

We visited California State University, San Bernardino from March 27, 1995 through June 9, 1995 and audited the internal control structure in effect at that time.

In accordance with the Government Code Section 13402, et seq., state agency heads are responsible for establishing and maintaining systems of internal accounting control. The broad objectives of control systems for state agencies are to provide management with reasonable, but not absolute, assurance that:

- **assets are safeguarded from unauthorized use or disposition; and**
- **transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial reports in accordance with the State Administrative Manual.**

Because of inherent limitations in control systems, errors or irregularities may occur and not be detected. In addition, projection of any evaluation of systems to future periods is subject to risk since procedures may become inadequate as a result of changes in conditions, or the degree of compliance with the procedures may deteriorate. (See *Appendix B, Statement of internal Controls.*)

We found that, except for the items noted in the Executive Summary and in the detail of the report, controls were in place and functioning adequately and compliance with related CSU and campus policies and procedures were satisfactory.

Our audit disclosed conditions which, in our opinion, if not corrected would likely result in significant errors and irregularities. Specifically, the campus does not maintain adequate internal control over the following areas: cash receiptings, accounts receivables and fixed assets. Other areas needing improvement are found in the Executive Summary.

EXECUTIVE SUMMARY

The purpose of this section is to provide management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CASH RECEIPTS

SATELLITE CASH COLLECTION CENTERS [7]

Our review of a sample of satellite cash collection centers (Health Center, Library, and Housing Office) indicated that internal controls at those sites were not adequate. Increasing satellite cash

collection oversight strengthens internal control and assures that all cash collections are appropriately accounted for and safeguarded.

ACCOUNTS RECEIVABLE

FOLLOW UP PROCEDURES [8]

The campus did not have procedures in place that provided for the prompt follow-up of accounts receivable. Implementing the accounts payable software upgrade will allow the campus to promptly follow-up on delinquent accounts, thereby maximizing working capital and interest income.

PAYROLL OVERPAYMENTS [9]

The Payroll Office did not properly follow-up on delinquent payroll overpayments. Establishing procedures to properly manage and follow-up on outstanding employee receivables will increase the likelihood that all amounts owed will be collected.

PURCHASING

DOCUMENTATION [10]

Our review of purchasing transactions indicated a lack of documentation in certain areas. Strengthening internal controls over purchase transactions assures that expenditures are appropriate and that good business practices, laws, regulations, and CSU policies are complied with.

REVOLVING FUND

RECONCILIATIONS [11]

Revolving fund reconciliations did not include the date reconciled and reviewed. Supporting documentation indicated that reconciliations were prepared several months late. Timely reconciliations that include the date prepared and reviewed increases the capability of the campus to detect errors and irregularities.

CASH DISBURSEMENTS

CHECKS OVER \$15,000 [12]

Revolving fund checks written by the campus, for over \$15,000, did not have the required two signatures in thirty percent (6/20) of the instances in our sample. The use of two signatures on all checks over \$15,000 increases internal control and decreases the potential for misuse of funds.

SCO RECONCILIATIONS [12]

Expenditures were not reconciled to the State Controller's Office (SCO) balances on a monthly basis. Performing monthly SCO reconciliations increases the capability of the campus to detect errors and irregularities.

PAYROLL/PERSONNEL

SEPARATION PROCEDURES [13]

Four of 28 (14%) employees in our sample followed campus procedures for separating employees, however, they were able to do so without repaying outstanding receivables. Strengthening controls to assure that all employees properly complete campus clearance procedures before delivery of their final paycheck will ensure the return of state property, advances, ID cards and the deletion of computer access codes.

FIXED ASSETS

PROPERTY INVENTORY TAGS [14]

The Property Office did not tag and record property into inventory in a timely manner. This is a recurrence of a prior FISMA audit finding. Strengthening internal controls to assure that all property is recorded and tagged as soon as possible in the Receiving Department will decrease the possibility of loss or theft and assure that accounting records are accurately stated.

RECONCILIATIONS [14]

The campus did not make a monthly reconciliation between property records and the general ledger property accounts. To assure that property and accounting records are accurately stated, the campus should reconcile property records to the general ledger property accounts on a monthly basis.

PHYSICAL INVENTORIES [15]

Physical inventories were not completed and reconciled with the accounting records. This is a recurrence of a prior FISMA audit finding. To assure that university assets are controlled and properly stated in the financial records, the campus should comply with current requirements to perform periodic physical inventories.

REMOVAL OF PROPERTY FROM INVENTORY [16]

The campus last identified property that should be surveyed and deleted from inventory in September 1994. In addition, lost or stolen property reported to Public Safety was not surveyed and removed from inventory in a timely manner. To assure that university assets are controlled and properly stated in the financial records, the campus should prepare Property Survey Reports whenever property is lost, stolen or destroyed and adjust property and financial records on a timely basis.

FISCAL IT

DISASTER RECOVERY PLAN [16]

The campus did not have an information technology (IT) disaster recovery plan in place. To assure that business operations can continue or return to normal operations after a disaster, the campus should formulate and implement a disaster recovery plan.

TRUST FUNDS

TRUST MANAGEMENT [17]

Fees collected to reimburse the Nursing Vaccine trust account were deposited into the Health Services (HS) Augmented Revenue trust account. Additionally, Health Services personnel did not verify the correctness of vaccine fee deposits nor did they reconcile inventory purchased and dispensed to fees collected. To safeguard university assets the campus should implement procedures for the reconciliation of deposits to collections and inventory purchased and dispensed to fees collected. Further, to assure that trust accounts are accurately stated, the campus should correct the Nursing Vaccine and HS Augmented Revenue trust account balances.

CASH RECEIPTS

SATELLITE CASH COLLECTION CENTERS

Our review of a sample of satellite cash collection centers (Health Center, Library, and Housing Office) indicated that internal controls at those sites were not adequate.

Health Center

Cash collections were not deposited in a timely manner. The Health Center prepared and delivered deposits to the Bursar's Office on a monthly basis. At the time of our visit, the Health Center's cash box contained \$145.00 worth of checks that were several weeks old.

Checks were not restrictively endorsed in a timely manner. The Health Center endorsed checks at the time deposits were prepared. As noted above, the Health Center prepared deposits monthly.

The inventory of used and unused receipt numbers was not controlled nor was there an accurate reconciliation of receipts to collections. The Health Center used a numbered receipt book to evidence payments received from students. The Health Center also used the same receipt book to record student loan deposits of clinic property, such as crutches. Further, the health services assistant prepared deposits to the Bursars Office on a form that noted the sequence numbers of receipts from the receipt book instead of the individual numbers. This is not an accurate reconciliation of collections to receipts as the sequence included voided receipts and student loan deposit receipts that are not part of the deposit.

Library

Cash collections were not deposited in a timely manner. The Library prepared and transported deposits to the Bursar's Office weekly and biweekly depending on the volume. Further, the Library did not balance and close out their four cash drawers until the preparation of the weekly or biweekly deposit.

A written record of individuals with access to the department's safe and the date of the last combination change was not kept.

Cash collection policies and procedures were not documented.

Housing Office

Housing receipts, periodically exceeding \$1,000, were not adequately secured. Undeposited collections left over night in Housing were kept in a locked (standard) filing cabinet. The cabinet was placed under a window and was also accessible to employees during the performance of their non-collection duties.

Cash collection policies and procedures were not documented.

SAM Sections 8030.1, 8023, 8020, 8024, and 2003 address the above areas. In addition, SUAM Section 3821 rests responsibility in the chief business officer to monitor collection operations in cash collection centers and to assure that cash collection centers follow State and Chancellor's Office requirements for internal control.

There was no physical oversight of satellite cash collection centers by accounting management that would have detected and corrected the conditions. Further, the director of accounting did not believe his office had the authority to enforce internal control policies and procedures as they related to satellite cash collection operations.

By providing less than an optimal level of oversight, internal control has been reduced and the campus cannot assure that all cash collections are appropriately accounted for and safeguarded.

Recommendation 1

We recommend that the campus assure that all necessary internal controls are appropriately applied to satellite cash collection centers.

Campus Response

The Accounting Department previously recognized the importance of internal controls and sent a letter to satellite cash collection centers on this subject prior to the audit. As a result of the audit findings, the Accounting Department will develop strict cash operating procedures for satellite operations and conduct periodic staff visits to ensure compliance.

ACCOUNTS RECEIVABLE

FOLLOW UP PROCEDURES

The campus did not have procedures in place that provided for the prompt follow-up of accounts receivable.

SAM Section 8776.6 requires each department to develop collection procedures that will assure prompt follow-up of receivables. Those procedures will include the use of collection letters, tax offsets, small claims actions and collection agencies.

The campus' accounts receivable system did not age receivables in a format that allowed for easy identification of delinquent accounts. However, we were informed by the director of accounting that in fiscal year 1995/96 software will be loaded in the system that will properly age the receivables. The system will have the ability to automatically send out three collection notices: 30, 60 and 90 days past due. After the last notice, the system will generate a report showing those accounts which should be turned over to the State Franchise Tax Board.

Failing to promptly follow-up on delinquent receivables reduces the amount of working capital available to the campus and represents a potential loss of interest income.

Recommendation 2

We recommend that the campus implement the planned system upgrade and assure that delinquent receivables are promptly followed-up.

Campus Response

The campus acknowledged that follow-up procedures needed strengthening and embarked on a re-engineering project in FY 94-95. This project will be complete on 6/30/96. Additionally, the

Accounting Department implemented new software in September 1995 which will systematically produce collection notices at the 30, 60, and 90 day intervals for delinquent accounts

PAYROLL OVERPAYMENTS

The Payroll Office did not properly follow-up on delinquent payroll overpayments. As of 5/16/95, we noted that 21 employees had outstanding receivables totaling \$22,706 dating back to 1992. Of the 21 employees with outstanding receivables we noted that:

- **Three employees were on a monthly repayment plan.**
- **Three were separated employees who were sent letters informing them of the debt owed. The campus has received no response and there was no other follow-up. One separated employee with a receivable dated 12/07/93 was sent a notice on 5/17/95, a day after we brought it to the payroll officer's attention.**
- **One employee settled the debt a day after we brought it to the payroll officer's attention.**
- **Two employees were on workers compensation. The payroll officer informed us that she could not collect these receivables until the employees returned to work.**
- **Two employees had settled their accounts but the receivable was not cleared off.**
- **Nine employees were contacted and agreed to a repayment plan a day after we brought it to the payroll officer's attention.**

SAM Section s 8776.6 and 8776.7 requires state agencies to develop collection procedures that will assure prompt follow-up of accounts receivable.

The receivable documentation was filed in folders alphabetically. No schedule was compiled showing amounts owed and the status of each account. As such, the payroll officer was not able to readily identify the age or magnitude of employee receivables.

Not following up and properly managing employee receivables reduces the likelihood that all amounts owed will be collected.

Recommendation 3

We recommend that the campus establish procedures to properly manage and follow-up on outstanding employee receivables.

Campus Response

The Accounting Department has implemented collection procedures (e.g., telephone notices and collection letters) that will ensure employee receivables are acted upon promptly. Also, management personnel will periodically review employee receivables.

PURCHASING

DOCUMENTATION

Our review of purchasing transactions indicated a lack of documentation in certain areas. Of the 22 purchase orders (POs) in our sample, we noted:

- **Three files had incomplete receiving information. One PO did not have any receiving information and two other POs were stamped and dated as received but they were not signed by the person receiving the goods.**
- **Purchases over \$1,000 require a minimum of three competitive quotes. Of those purchases in our sample that required three quotes: one quote sheet included only two quotes; and, three quote sheets did not include the name of the person who took the quote.**
- **Two PO files for computer equipment over \$10,000 did not have an Information Resource Management certification in the file.**
- **Five instances in which a signature authorization card was not on file for the account charged.**

SAM Section 2003 requires a system of internal control that includes authorization and record keeping procedures that provide effective control over assets, liabilities, revenues, and expenditures.

In several of the instances above, the documentation problems were oversights. In other instances, documentation was shared between two or more PO files. Further, signature authorization files were maintained by the Budget Office as well as the Purchasing Office. Purchasing Office personnel rely upon the Budget Office to keep signature authorizations current.

Inadequately documenting PO files reduces internal control by failing to assure that all expenditures are appropriate and that good business practices, laws, regulations, and CSU policies are complied with.

Recommendation 4

We recommend that the campus strengthen internal controls to assure that all purchase transactions are appropriately and completely documented.

Campus Response

The Purchasing Department will establish procedures that will result in better documentation to support purchase orders and improve control over assets, liabilities, revenue and expenditures.

REVOLVING FUND

RECONCILIATIONS

Revolving fund reconciliations did not include the date reconciled and reviewed. Supporting documentation indicated that reconciliations were prepared several months late.

SAM Section 7900 requires monthly reconciliations within 30 days of the preceding month.

SAM Section 7904 requires the date prepared and reviewed to be shown on reconciliations.

The assistant director of accounting informed us that staff resources prevented the preparation of reconciliations within the time frame required by SAM.

The timeliness of reconciliations affects the capability of the campus to detect errors and irregularities.

Recommendation 5

We recommend that the campus complete revolving fund reconciliations within thirty days of the preceding month that include the date prepared and reviewed.

Campus Response

Revolving fund reconciliations were not given a high priority by past accounting managers because of a shortage of resources. However, current management acknowledges the importance of reconciliations and has already revised monthly financial closing to include completion and reconciliation in the 30-day time frame.

CASH DISBURSEMENTS

CHECKS OVER \$15,000

Revolving fund checks written by the campus, for over \$15,000, did not have the required two signatures in thirty percent (6/20) of the instances in our sample.

SAM Section 8041 requires two authorized signatures on checks drawn in excess of \$15,000.

The accounts payable accountant informed us that the situations noted above were an oversight as campus procedures do require two signatures on checks over \$15,000. Further, the director of accounting informed us that check request forms did not adequately alert accounting personnel that a second signature was required. Therefore, the director of accounting modified the check request form to include a "special handling instruction" box that will flag checks over \$15,000.

The lack of two signatures compromises internal control over cash assets and increases the potential for misuse of funds.

Recommendation 6

We recommend that the campus implement the check request change and assure that all checks over \$15,000 have two authorizing signatures.

Campus Response

The Accounting Department revised its check request form in May 1995 to include special handling instructions for checks over \$15,000. These instructions were strategically placed on the form to gain the attention of accounting employees and ensure the requirement for two signatures.

SCO RECONCILIATIONS

Expenditures were not reconciled to the State Controller's Office (SCO) balances on a monthly basis.

SAM Section 7900 requires all reconciliations to be completed monthly.

The assistant director of accounting is responsible for campus reconciliations. She was not informed of the monthly SCO reconciliation requirement when she took over the position at the beginning of the fiscal year. As such, SCO reconciliations were neglected over an extended period of time.

The timeliness of reconciliations affects the capability of the campus to detect errors and irregularities.

Recommendation 7

We recommend that the campus perform monthly reconciliations of expenditures to SCO balances.

Campus Response

SCO reconciliations are now part of our monthly closing process which ensures completion within the required 30-day time frame.

PAYROLL/PERSONNEL

SEPARATION PROCEDURES

Four of twenty-eight (14%) employees in our sample were able to complete campus separation procedures without repaying outstanding receivables.

CSUSB campus clearance procedures requires employees to circulate a clearance form to specific departments requesting clearance authorization prior to distribution of their final payroll warrant. This includes a verification that the employee is not indebted to the campus.

The payroll officer and human resource office supervisor were not able to provide an explanation as to how the employees were able to separate without settling an outstanding receivable.

Proper completion of campus clearance procedures prior to delivery of the final paycheck helps to ensure internal control over such areas as: departments (return of keys, state property, phone cards, cancellation of signature authority); the Computer Center (access codes and account numbers deleted); University Services (return of ID cards, Department of General Services card, rental car card); Payroll (salary advances); and Cashiering (advances cleared, accounts receivable cleared, American Express card returned).

Recommendation 8

We recommend that the campus strengthen controls to assure that correct clearance procedures are followed.

Campus Response

The campus contacted Cal Poly Pomona and Cal State Dominguez Hills to gain insight into their separation processes. A revised clearance procedure is being drafted which will incorporate processes from the two campuses.

FIXED ASSETS

PROPERTY INVENTORY TAGS

The Property Office did not tag property in a timely manner. Our property sample included items received between December 1994 and March 1995. As of the beginning of June 1995, eight of nineteen (42%) items in our sample that required tagging were not tagged and recorded into inventory. This is a recurrence of a prior FISMA audit finding.

SAM Section 8651 requires the tagging of all state property as soon as practical.

CSUSB property procedures require the property clerk to physically place a state tag on all property items when they are delivered to the university's Receiving Department and to enter pertinent property information into the university's property inventory records.

The CSUSB property procedures were put in place at the beginning of the 1995 calendar year. Prior to that time, the Receiving Department transferred property directly to ordering departments without a property tag. The property clerk informed us that the items in our sample slipped through during the implementation of the new procedure and that the current practice is to tag all property in Receiving.

Delays in the tagging and recording process increase the possibility of theft or loss. Further, untagged and unrecorded property misstates inventory and accounting records.

Recommendation 9

We recommend that the campus strengthen internal controls to assure that all property is recorded and tagged as soon as possible in the Receiving Department.

Campus Response

Follow-up procedures will be implemented to ensure property is tagged in Receiving before transferring it to ordering departments.

RECONCILIATIONS

The campus did not make a monthly reconciliation between property records and the general ledger property accounts.

SAM Section 7969 requires a monthly (or quarterly if the volume is low) reconciliation of property inventory with changes in the general ledger accounts.

The property clerk informed us that the campus has not required a monthly reconciliation.

Accounting records are overstated because assets are recorded in the system when a PO is issued but not deleted when assets are lost, stolen or disposed of.

Recommendation 10

We recommend that the campus reconcile property records to the general ledger property accounts on a monthly basis.

Campus Response

The Purchasing Department will establish procedures that incorporate monthly reconciliations between property records and general ledger property accounts.

PHYSICAL INVENTORIES

Physical inventories were not completed and reconciled with the accounting records. The campus established a schedule of 22 department inventories to take place between March 27 and June 30, 1995. As of June 16, 1995, only four departments were inventoried. This is a recurrence of a prior FISMA audit finding

SAM Section 8652 requires departments to physically count all property and reconcile the count to accounting records at least once every three years.

The property clerk informed us that inventory counts were a lesser priority on campus.

The campus cannot assure that university assets are controlled and properly stated in the financial records.

Recommendation 11

We recommend that the campus comply with current requirements to perform periodic physical inventories.

Campus Response

Physical inventories are being completed by Purchasing employees. As of December 1995, sixteen departments have been inventoried. Campus will ensure property is counted and reconciled to accounting records at least once every three years.

REMOVAL OF PROPERTY FROM INVENTORY

The campus last identified property that should be surveyed and deleted from inventory in September 1994. In addition, lost or stolen property reported to Public Safety was not surveyed and removed from inventory in a timely manner. Public Safety records show losses of \$46,121 between January 1994 and April 1995 that could possibly be surveyed.

SAM Section 8643 requires departments to prepare a Property Survey Report and to adjust it's property accounting records whenever property is lost, stolen, or destroyed.

The property survey procedure is initiated by university departments. Since regular inventories were not conducted, no incentive existed for departments to identify property items that should be surveyed and removed from campus inventory. Further, Public Safety does not forward crime reports to the Property Department until asked. The property clerk informed us that he contacts Public Safety approximately every six months for reports on lost and stolen property.

The campus cannot assure that university assets are controlled and properly stated in the financial records.

Recommendation 12

We recommend that the campus prepare Property Survey Reports whenever property is lost, stolen or destroyed and that campus property and financial records are adjusted on a timely basis.

Campus Response

A written procedure will be developed that outlines the requirement for Property Survey Reports. Upon completion of these reports, financial records will be adjusted.

FISCAL IT

DISASTER RECOVERY PLAN

The campus did not have an information technology (IT) disaster recovery plan in place.

Effective risk management requires the development and implementation of a disaster recovery plan.

The director, administrative computing & telecommunications informed us that other issues have taken priority but that the campus is now at a stage in which a disaster recovery plan can be addressed.

The campus cannot assure that business operations can continue or return to normal operations after a disaster, whether natural or man made.

Recommendation 13

We recommend that the campus formulate and implement a disaster recovery plan.

Campus Response

The director, Administrative Computing and Telecommunications has requested funding from the Chancellor's Office to finance a disaster recovery plan. Once a decision is reached on funding, the campus will proceed with the formulation and implementation of the plan

TRUST FUNDS

TRUST MANAGEMENT

Fees collected to reimburse the Nursing Vaccine trust account were deposited into the Health Services (HS) Augmented Revenue trust account. Further, Health Services personnel did not verify the correctness of vaccine fee deposits nor did they reconcile inventory purchased and dispensed to fees collected.

SAM Section 2003 states that elements of a satisfactory system of internal control include record keeping procedures that provide effective control over assets, liabilities, revenues, and expenditures.

The Health Center pharmacist dispensed hepatitis B injections **that were purchased through the Nursing Vaccine trust account.** A fee is collected to reimburse the trust account and to purchase additional vaccine. The pharmacist had full control of vaccine ordering, inventorying, dispensing and fee collection. The pharmacist prepared a deposit slip that was forwarded along with the fees collected to the health services assistant to deposit. However, the deposit slip did not include receipt numbers or any other reconciling item. The health services assistant also administered the HS Augmented Revenue trust account. She did not recognize that the vaccine fees were a separate account and inadvertently deposited the vaccine fees along with augmented fees into the HS Augmented Revenue trust account.

The Nursing Vaccine account was set up to specifically purchase and dispense hepatitis B vaccines to nursing students. Commingling vaccine fees with the HS Augmented Revenue account reduces the amount of funds available for the purchase of hepatitis B vaccines, thereby defeating the purpose of the trust. In addition, the HS account is overstated thus making additional funds available through augmented fees.

Deposits that are not reconcilable to collections do not provide assurances that all fees collected for vaccines are deposited. Further, university assets are not properly safeguarded when inventory purchased and dispensed is not reconciled to fees collected.

Recommendation 14

We recommend that the campus correct Nursing Vaccine and HS Augmented Revenue trust account balances. We also recommend that the campus implement procedures for the reconciliation of deposits to collections and inventory purchased and dispensed to fees collected in the Health Services area.

Campus Response

The Accounting Department has clarified the purpose of the Nursing Vaccine and HS Augmented Revenue accounts and also corrected cross-posting problems. A process for reconciliation of deposits to collections of safeguarding assets will be implemented upon agreement by the Health Service and Accounting departments.

APPENDIX A:
PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Anthony Evans	President
Teri Allen	Payroll Officer
Dayrl Anderson	Director of Accounting
Dan Ashley	Director Administrative Computing and Telecommunication
Dan Ashworth	Accountant II
Suzanne Bolowich	Assistant Director of Accounting
John Camien	Library Assistant
Sharon Cowely	Clerical Assistant III
David DeMauro	Vice President for Administration and Finance
Mary Jo Dulancy	Accounting Technician, Housing
Shannon Kelley	Accountant I
Juanita Martin-Wellington	Accounting Technician II
Kathy McCarrell	Accountant I
Cecilia McCarron	Health Services Assistant
Grant McMurrin	Property Clerk
Carmen Murilolo-Moyeda	Administrative Operations Analyst I
Janice L. Lemmond	Procurement and Support Services Officer
Barbara Noble	Student Personnel Technician
Melody Neill	Office Supervisor, Human Resources
Kathy Shepard	Purchasing Manager
Sandra Sila	Accountant I
William Takehara	Associate Vice President for Financial Operations, Budgets
Beth Tillitson	Buyer
Lori Walker	Accounting Technician III
Mary Woody	Accounting Clerk

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the CSU Board of Trustees, and the Office of the Chancellor are evaluated by the University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls which may be characterized as either accounting or operational as follows:

1. Internal Accounting Controls

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records.

They generally include such controls as the systems of authorization and approval, separation of duties concerned with record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

C. INTERNAL CONTROL OBJECTIVES

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.