FISMA

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD

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BOARD OF TRUSTEES

THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

CO	Chancellor's Office
CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
IRS	Internal Revenue Service
PSSO	Procurement and Support Services Officer
SAM	State Administrative Manual
SMIF	State Money Investment Fund
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 May 1995. Our primary focus was on internal controls. Specifically, we reviewed and tested:

- **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 the California State University, Bakersfield from May 1,1995 through July 11, 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.

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

CASH COLLECTIONS [6]

Health center cash collections were not forwarded to the campus cashiering office timely. The facilities and procedures for safeguarding cash collections in the health center were inadequate. Proper safeguarding of cash and forwarding collections to the accounting office daily or when a minimum amount is collected reduces exposure to potential revenue loss.

STATE UNIVERSITY FEE RECONCILIATION [6]

The campus was not completing the mandatory state university fee reconciliation. Completing reconciliations on a timely basis each term reduces the potential for theft or revenue loses going undetected for an extended period of time.

ACCOUNTS RECEIVABLE [7]

Based upon a random sample selection and review of fifteen outstanding accounts receivable transactions, we found no documentation of follow-up collection activity on any of the accounts examined. Ensuring timely follow-up and documentation limits the potential for loss of revenues from uncollectible accounts and reduces overstatement of receivables.

PURCHASING [8]

The Procurement and Support Services Office has not developed written purchasing policies and procedures. Written procedures result in enhanced purchasing control and accountability.

REVOLVING FUND [8]

The campus had not reconciled the revolving fund to the general checking account during 1994-95. Preparation of revolving fund reconciliations on a timely basis reduces the risk of loss of state funds.

DISBURSEMENTS

BANK RECONCILIATIONS [9]

Bank reconciliations were not being timely prepared. Timely preparation of bank reconciliations reduces the likelihood that errors and defalcations may occur and go undetected for extended periods of time.

VENDOR DATA RECORDS [10]

The campus does not routinely obtain vendor data records from those non-government entities with which it does business. Solicitation of vendor data records prior to payment will mitigate campus exposure to Internal Revenue Service penalties and fines.

FIXED ASSETS

PROPERTY INVENTORY [11]

A complete physical inventory has not been conducted by the campus since 1989. Taking periodic inventories reduces the campus' risk to loss and/or misuse of fixed assets.

PROPERTY ACQUISITIONS [11]

Property acquisitions were not timely added to the property inventory records. To assure an accurate, up-to-date, and complete inventory, postings of property acquisitions should occur more timely.

INVESTMENTS [12]

Trust account balances were not periodically reviewed for excess cash to maximize investment amounts. Periodic reviews of trust account cash balances and cash flow needs would result in increased investments and a greater return on investments.

TRUST FUNDS

EXPENDITURE AUTHORIZATIONS [13]

Based upon a sample selection and review of twenty 1994-95 trust fund disbursements, we found three instance of improper expenditure authorization. Obtaining proper expenditure authorizations for trust accounts reduces the risk of loss of funds from inappropriate disbursements.

MINIMUM BALANCES TO RECEIVE INVESTMENT EARNINGS CREDIT [13]

Trust account holders had not been advised in writing of the requirement to maintain a minimum of $500 in their operating account to receive investment earnings credit. Informing prospective trust account holders in the trust agreement of the need for a minimum balance to earn interest would mitigate later claims for such earnings.

CASH RECEIPTS

CASH COLLECTIONS

Health center cash collections were not forwarded to the central cashiering office timely. The facilities and procedures for safeguarding cash collections in the health center were inadequate.

Daily cash collections, which exceeded $100 on a daily basis, were left in the cash register over night.
SUAM Section 3821 provides that the Chief Business Officer shall establish control procedures to ensure that all monies are safeguarded and deposited in a timely manner.

SAM Section 20003 states that the elements of a satisfactory system of internal accounting and administrative control shall include an established system of practices to be followed in performance of duties and functions in each of the state agencies.

Both the chief cashier and health center staff indicated that no written procedures had been provided to guide health center staff in handling, accounting, and controlling cash receipts.

Cash losses can occur when collections at satellite locations are not forwarded to the cashiering office daily when minimum amounts are collected and when safeguarding procedures are inadequate.

Recommendation 1

We recommend that the campus establish, and disseminate to satellite locations, procedures for the timely forwarding, controlling, and safeguarding of cash collections.

Campus Response

The Health Center has obtained a safe to properly secure cash collections and will increase the frequency of deposits as collection volume requires.

STATE UNIVERSITY FEE RECONCILIATION

The campus was not completing the mandatory state university fee reconciliation.

SUAM Section 3825.01 provides that a reconciliation of state university fees to the number of students enrolled shall be prepared for each academic term and shall be maintained on file by each campus.

Although the fee reconciliation has been initiated, it had not been completed. The accounting supervisor stated that the reconciliations were not completed because of problems encountered with the recently installed student records and financial accounting system.

Failure to prepare the mandatory state university fee reconciliations places the campus at risk of fee revenue loss and the loss going undetected for an extended period.

Recommendation 2

We recommend that the campus reconcile the state university fees collected to student enrollment.

Campus Response

The campus continues to attempt to reconcile the State University Fees, but problems with the Banner System in recognizing and calculating the various fee waiver codes may prohibit complete reconciliation. The fee waiver codes are under review with the computer center in an effort to minimize future variances.

ACCOUNTS RECEIVABLE

Based upon a random sample selection and review of fifteen outstanding accounts receivable transactions, we found no documentation of follow-up collection activity on any of the accounts examined.

SAM Section 8776.6 provides specific criteria for collection of outstanding accounts receivables that include sending follow-up letters beginning thirty days after the initial invoice and continuing at thirty day intervals for three months. The use of tax-offset procedures and collection agencies is also to be considered.

The accounting supervisor stated that staffing turnover caused delays in conducting follow-up; she also noted that, in some instances, follow-up was conducted but not documented.

Lack of timely follow-up and collection on outstanding accounts receivable may results in a loss of interest revenue to the State and may also contribute to non-payment of some debts.

Recommendation 3

We recommend that the campus follow established procedures to promptly follow-up and document outstanding receivables collection activity.

Campus Response

Past practice had the accounts receivable function assigned to several different employees depending on the customer. The office has been reorganized with the accounts receivable function the responsibility of one employee. This has allowed a single set of procedures to be established, including proper documentation. Many of the accounts receivables reported in this finding related to the campus foundation so verbal communication was more prevalent than contact notes. The current procedures for the desk require proper written notations of all follow-ups.

PURCHASING

The Procurement and Support Services Office has not developed written purchasing policies and procedures. This is a repeat finding from a prior FISMA review conducted in 1993.

SAM Section 20003 provides that the elements of a satisfactory system of internal accounting and administrative control shall include an established system of practices to be followed in performance of duties and functions in each of the state agencies.

The Procurement and Support Services Officer (PSSO) stated that the development of procurement policies and procedures was ongoing while the procurement office was under going automation of the purchasing, receiving, and property operations. He further stated that policies and procedures were being written as implementation of the automated procurement process took place.

Failure to document purchasing policies and procedures may lead to violation of state and/or CSU purchasing guidelines and could result in inconsistencies and delays in processing purchase requisitions and purchase orders.

Recommendation 4

We recommend that the campus develop and disseminate written procurement policies and procedures.

Campus Response

The Office of Procurement and Support Services (PSSO) has recently completed a Business Services directory designed to acquaint the campus with the types of services offered and procedures and contact persons available to obtain these services. The PSSO has also completed the first draft of the policy and procedures manual for the department. The purchasing department has just gone into the productions phase of the PRS system in July 1995 and will expand the draft manual to incorporate this system.

REVOLVING FUND

The campus had not reconciled the revolving fund to the general checking account during 1994-95.

SAM Section 7900 states that all reconciliations will be prepared monthly within 30 days of the preceding month.

The accounting supervisor stated that the on-going automation of the campus accounting operation caused delays in performing the revolving fund reconciliations. Our review notes that documentation of the most recently completed reconciliation of the revolving fund was June 1994.

Failure to timely prepare revolving fund reconciliations increases the risk of loss of state funds.

Recommendation 5

We recommend that the campus follow established procedures to ensure that the revolving fund is reconciled on a monthly basis.

Campus Response

The campus has been working on the revolving fund reconciliation during the 1994/95 fiscal year but has been unable to be completely reconciled. The implementation of the Banner Student System transferred an unanticipated work load to the accounting office and delayed the performance of this reconciliation. The campus has put a concentrated effort in this area this past two months and hopes to be able to reconcile within the next two months. Substantial progress has been made and complete reconciliation appears to be a reasonable expectation at this time.

DISBURSEMENTS

BANK RECONCILIATIONS

Bank reconciliations were not prepared timely. At the time of our review (May 1995), the most recently completed bank reconciliation at the campus was for the month ending January 31, 1995.

SAM Section 8060 states that all bank and centralized State Treasury System accounts will be reconciled promptly at the end of each month.

The assistant business manager stated that the bank reconciliation were delayed because of changes in the process and methodology for preparation. Previously, campus bank reconciliations were prepared using a format which did not include the State Treasury Reconciliation by agency account, rather a reconciliation based on the local bank statement, cancelled checks, and records of deposits.

We note that prior to January 1995 campus records show that the bank reconciliations were prepared monthly as required.

When bank reconciliations are not prepared timely, errors and defalcations may occur and go undetected for an extended period of time.

Recommendation 6

We recommend that the campus take the appropriate action to ensure that bank reconciliations are prepared monthly.

Campus Response

The bank reconciliations had been current through January 1995 and are again current. The brief delay reported in the audit was caused by the campus's conversion from a local campus based reconciliation system to the Chancellor's Office SAM 11B program. During this period, the bank statement reconciliations were in progress, just not completed.

VENDOR DATA RECORD

The campus does not routinely obtain vendor data records from those non-government entities with which it does business. Based upon a random sample selection of 71 vendor payments for adequacy of supporting documentation, we found 36 instances where no vendor data records were on file.

Section 6041 of the federal Internal Revenue Code and 18802 of the State Revenue and Taxation Code require the state to report certain payments made to individuals, medical corporations, and partnerships when such payments total at least $600 of miscellaneous income and $10 of interest income, respectively. The chief financial officer of each state agency is designated as the person responsible for ensuring compliance with federal and state tax laws.

SAM Section 8422.19 states that in order to determine what payments are reportable, a Vendor Data Record, Form 204, must be completed by the vendor and retained by each state agency making payments to non-governmental entities.

The accounting office supervisor stated that the procurement office is responsible for collecting and retaining vendor data information and that they are not notified when individuals and vendors fail to respond to data requests.

Under the Internal Revenue Service Code, a State agency that fails to obtain the Taxpayer Identification Number (TIN) or fails to file timely information returns in subject to a penalty of up to $50 per annual information return to a maximum of $250,000. In addition, the state agency can be assessed a 20 percent federal backup income tax withholding on amounts that were incorrectly reported or were not withheld. Additional penalties, fines, and interest may be assessed by the IRS and/or the State Franchise Tax Board.

Recommendation 7

We recommend that the campus enforce procedures to ensure that vendor data information is obtained or payment is withheld as required.

Campus Response

The campus routinely sent out the Vendor Data forms (Form 204) but did not withhold payments if the forms were not returned. The installation of the purchasing system (PRS) has corrected this problem. The system will not allow the invoice payment function to generate a payment unless the Form 204 is received and is put into the system.

FIXED ASSETS

PROPERTY INVENTORY

The campus has not conducted a complete property inventory count since 1989. This is a repeat of a finding made by the Department of Finance in their 1987 FISMA review and in the prior review by the Office of the University Auditor in 1993.

SAM Section 8652 requires that a physical inventory of all property be completed once every three years.

The Procurement and Support Services Officer (PSSO) stated that inventory reports were sent out to all campus department for confirmation and/or updating during the spring quarter of 1995. However, he stated that there has been resistance to this effort from some campus departments. During discussion with campus department heads and designated departmental property clerks, I was informed that the inventory listing contained many errors.

Failure to take a periodic inventory exposes the campus to loss and/or misuse of fixed assets.

Recommendation 8

We recommend that the campus conduct a complete physical inventory immediately and at least once every three years thereafter.

Campus Response

Prior to 1987, physical inventory was taken yearly by the property department. During the audit in 1987, the State Auditors recommended the campus hire an inventory clerk or decentralize the inventory function to the department level. The latter was adopted by the campus. The property department has distributed the inventory listings to the various departments and to date has experienced a sparse return rate. The property department will follow-up with the departments to encourage the return of the completed listings

PROPERTY ACQUISITIONS

Property acquisitions were not timely added to the property inventory records. Nine out of ten property purchases selected for review and received at the campus needed posting to the inventory.

SAM Section 8650 states that departments will keep records of all capitalized assets when acquired.

We expanded our review in this area and found 97 property item purchases received at the campus between July 1994 and May 1995 were not posted to the property inventory.

The property clerk stated that she does not update the inventory record with new acquisitions until the campus accounting office confirms, in writing, the actual cost of each property item received.

If property acquisitions are not added to the inventory timely, errors and/or omissions may occur.

Recommendation 9

We recommend that the campus establish procedures to ensure timely recording of capital acquisitions.

Campus Response

In July 1995, the property department implemented a new fixed asset program on Filemaker Pro. The system allows the equipment to be logged into the Fixed Asset program as soon as it is received using data entered by the buyers when the equipment is ordered, including the estimated purchase price. As the invoices are paid, the system can be updated to reflect the actual price paid. The new system has enabled the property department to add approximately $900,000 worth of equipment to the state property inventory in a timely manner.

INVESTMENTS

Trust account balances were not periodically reviewed for excess cash to maximize investment amounts.

SUAM Section 2813 states that in order to maximize funds, they should be invested whenever possible.

The accounting supervisor stated she has established the practice of reviewing trust account balances for investment of excess cash once per year during the budget process. Historical spending needs provide the means for cash projections, and at no other time during the year was there an analysis of cash flow.

Failure to conduct cash flow analyses of trust accounts to maximize invested amounts results in reduced investment earnings the accounts.

Recommendation 10

We recommend that the campus establish procedures to ensure periodic review of trust accounts for excess cash balances and investment of these funds.

Campus Response

Trust balances are being reviewed on a monthly basis and any excess cash is being invested to maximize investment earnings of these funds.

TRUST FUNDS

EXPENDITURE AUTHORIZATIONS

Based upon a sample selection/review of twenty trust fund disbursements, we found three instances where the expenditures were not properly authorized.

SAM Section 19440.1 provides that each trust account established shall be supported by documentation as to the persons authorized to withdraw or expend funds and specimen signatures.

Expenditure approval authority had been delegated at the department level but not documented and communicated to the accounting office, and the accounting office had not obtained the required expenditure approvals before disbursing trust funds.

Failure to obtain proper expenditure authorizations for trust accounts exposes the funds to risk of loss from inappropriate disbursements.

Recommendation 11

We recommend that the campus ensure that trust account expenditures are appropriately authorized.

Campus Response

The trust form has been revised and updated within the last 18 months. It was distributed to all authorized account signers for current signatures and other pertinent data. The three accounts mentioned in the audit finding were undergoing changes in their responsible parties and have subsequently been brought up to date.

MINIMUM BALANCES TO RECEIVE INVESTMENT EARNINGS CREDIT

Trust accounts holders had not been advised in writing of the requirement to maintain a minimum of $500 in their operating account to receive investment earnings credit.

SUAM Section 3824 states that the campus president may define the rules for distribution of interest income, except where interest income is defined in instruments such as bond resolutions, trust fund project agreements, and federal funding contracts. An administrative charge may be assessed for the direct costs of the cash management functions consistent with any limitations, including the President's definition.

The accounting officer stated that administrative charges, if assessed, were based on collections; many trust accounts do not have collections each term or year. However, these same trust accounts may require accounting office staff time and efforts to post investment interest income or to process vendor payments. By withholding interest earnings from trust investments when their operating balances fall below $500, the campus seeks to recover costs incurred on behalf of the trust.

The campus may be improperly withholding interest earnings by not giving prior notice of the requirement to maintain a $500 balance.

Recommendation 12

We recommend that the campus:

a. **notify current trust account holders of the requirement to maintain a $500 minimum balance in their operating account to receive investment earnings credit; and**

b. **incorporate into all new trust agreements, a statement informing the trust account holder that a $500 minimum balance must be maintained in their operating account to receive interest earnings credit.**

Campus Response

Fees for Trust Accounts were negotiated on an individual basis. When the Trust Account was charged a small fee or no fee, the campus policy was to retain the interest earned on those investments as the administrative fee. In an effort to be more consistent, the campus will set a $500 minimum balance to earn interest and the trust form will be revised to reflect this policy change. The current policy holders will be informed of this policy change and any other procedures the campus has implemented.

APPENDIX A:
PERSONNEL CONTACTED

Name	Title
Tomas A. Arciniega	President
Gus Beatty	Director, Data Processing Services
Jane Bedford	Accounting Supervisor
Renee Crouch	Accounting Technician
Beverly Donley	Contracts Officer
Willie Duncan	Assistant Budget Analyst
Stan T. Frazier	Business Manager
Kellie Garcia	Acting Director, Personnel Services
Gary Gleed	Director of Accounting
Irma Gonzalez	Property Clerk
Melinda Jackson	Accounting Technician
Irene Leung	Assistant Director Data Processing Services
Janet Martin	Payroll Officer
Steve Moore	Foundation Accounting Manager
Mark Murie	Benefits Officer
Jayne Rogers	Accounting Technician
Karen Stotts	Accounting Technician
Sharon A. Taylor	Assistant Business Manager
Glenda Vastbinder	Head Cashier
Michael Williams	Director of Procurement and Support Services
Frank Yap	Assistant Director of Procurement and Support Services

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.