FISMA

CALIFORNIA STATE UNIVERSITY,
CHICO

Report Number 95-07
January 25, 1996

Members, Committee on Audit

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BOARD OF TRUSTEES

THE CALIFORNIA STATE UNIVERSITY
INTRODUCTION

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 1994-95 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 to September 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 the CSU Chico from September 11 through October 27, 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 [4]

Our review of two satellite cash collection centers (Library Circulation Services, and Admissions and Records) indicated that internal controls at those sites were not adequate. Security/internal control over cash is increased by use of appropriate documentation and restriction of access to safes/lockable cabinets.

REVOLVING FUND

TRAVEL ADVANCES [5]

The revolving fund was not reimbursed for travel advances in a timely manner. Claim scheduling travel expense claims on a regular basis positively impacts cash flow and increases the availability of funds for other purposes.

PETTY CASH FUNDS [5]
Not all petty cash funds were receiving cash counts as often as required. Performing petty cash counts on a regular basis strengthens controls over those funds.

**FIXED ASSETS [6]**

Property Management was not notified of all lost or stolen property that should be removed from the property inventory. Forwarding copies of all police reports that include lost and stolen property to Property Management will assist the campus in accurately stating inventory and property accounts.

**CASH RECEIPTS**

Our review of two satellite cash collection centers (Library Circulation Services and Admissions and Records) indicated that internal controls at those sites were not adequate.

**Library Circulation Services**

A written record of individuals with access to the safe and the date of the last combination change was not kept. Further, we were informed by the head of Library Access Services that the combination was not changed after the former circulation supervisor retired in mid 1994.

The library had a locked key box that was mounted on a wall in the rear of Library Circulation Services. The box contained all the keys to the building including the cash strong box and security system. There was only one known key to the box and it was stored in a small metal tin unsecured on the circulation supervisor's desk.

The head of Library Access Services informed us that Accounting Services had not advised them of procedures relating to safes and the circulation supervisor informed us that the key to the key box is left unsecured so that personnel can access the keys used to open and close the library each day.

**Admissions and Records**

The Admissions and Records office did not adequately restrict access to the department's storage cabinet that housed closed cash drawers and cash receipts awaiting transportation to Cash Management. At the time of our visit, there was a prepared deposit of $3,025 in the cabinet.

We noted that there were only three individuals who had a key to the cabinet. However, other employees regularly accessed the cabinet by retrieving a key from one of the three custodians. The supervisor of admissions compiled a list for us of employees with access to the cabinet. The list contained 40 individuals: 19 who routinely access the cabinet and another 21 who could have access if they desired it.

The Admission and Records office did not have a safe. Although the storage cabinet is kept locked it was also used to store personnel records. Therefore, employees were routinely retrieving and replacing documents in the cabinet.

Security/internal control over cash is compromised when access to safes and lockable cabinets is not adequately restricted.
SAM Sections 8024 and 8030.1 address the above areas with respect to safes and security over cash. In addition, SAM section 20003 requires agencies to establish a system of internal control such that resources are safeguarded against waste, loss, and misuse.

Recommendation 1

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

Campus Response

We concur with this recommendation. The Cash Management Office is working with Library Circulation Services to ensure that proper internal controls are in place to safeguard the funds. Admissions and Records Office has purchased a safe to secure their cash and has limited access to it.

REVOLVING FUND

TRAVEL ADVANCES

The revolving fund was not reimbursed for travel advances in a timely manner. As of September 13, 1995, the campus had uncleared travel advances totaling $144,518.32 that dated back to October 1994. We learned that in most cases, employees had submitted timely TECs but that Accounts Payable (AP) did not claim schedule the advances.

SAM Section 20003 requires a system of internal controls that provide effective management over campus assets and expenditures.

The accounting technician responsible for travel informed us that she did not claim schedule TECs in a timely manner because her workload and personal problems caused her to assign a low priority to TECs where an employee was not owed a refund.

Delays in reimbursing the revolving fund have a negative impact on cash flow, thereby, reducing the availability of funds for other purposes.

Recommendation 2

We recommend that the campus strengthen controls to assure that the revolving fund is promptly reimbursed through the timely claim scheduling of travel advances.

Campus Response

We concur with this recommendation. A student assistant has been hired to assist the travel clerk to help process travel claims in a timely manner.

PETTY CASH FUNDS
Not all petty cash funds were receiving cash counts as frequently as required. At the time of our review, five of 23 (22%) petty cash funds (each over $200.00) had not been counted in over two quarters.

SAM Section 8111.2 requires a quarterly count of change or petty cash funds that are between $200.01 and $500.00.

The AP supervisor informed us that she writes the due dates of the next count on her desk calendar and that the page on which the due dates were written must have been misplaced.

Not counting change/purchase funds compromises internal controls over those funds. Therefore, the campus cannot be assured that university assets are safeguarded.

Recommendation 3

We recommend that the campus perform petty cash counts with the frequency noted above.

Campus Response

We concur with this recommendation.

FIXED ASSETS

Property Management was not notified of all lost or stolen property that should be removed from the property inventory.

We found that Property Management was not provided with copies of police reports in seven of eleven instances (64%) reviewed. In three of the instances, equipment with an estimated value of $6,100.00 should have been removed from property inventory. In the other four instance, reports of equipment with an estimated value of $1,277.00 should have been forwarded to Property Management to determine whether the items were tagged and included in the property data base for control purposes.

SAM Section 8643, requires the preparation of a Property Survey Report and the adjustment of accounting records whenever property is lost, stolen or destroyed.

Property Management relied on campus departments to notify them of losses and thefts. Departments were advised to contact University Police to have a police report filed. Property Management would then request a copy of the report from University Police. Property Management also relied on University Police to forward copies of stolen equipment reports to them when departments contacted the police directly.

Failure to notify property management of all lost or stolen property allows for inventory and property accounts to be overstated and prevents the campus from making an accurate determination of the scope and magnitude of property shrinkage.

Recommendation 4
We recommend that the University Police forward copies of all police reports that include lost and stolen property to Property Management.

Campus Response

We concur with this recommendation. Property Management is now receiving copies of University Police lost and stolen property reports so that the property can be removed from the property inventory.
## APPENDIX A:
### PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
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<tbody>
<tr>
<td>Manuel Esteban</td>
<td>President</td>
</tr>
<tr>
<td>Miles Allen</td>
<td>Director, Business Affairs Computing Support</td>
</tr>
<tr>
<td>Andi Beach</td>
<td>Payroll Technician</td>
</tr>
<tr>
<td>Jan Burnham</td>
<td>Cash Management Manager</td>
</tr>
<tr>
<td>Richard Chamberlain</td>
<td>Cash Management Supervisor</td>
</tr>
<tr>
<td>Cindy Cleland</td>
<td>Accounting Manager</td>
</tr>
<tr>
<td>Cindy Collinsonworth</td>
<td>Payroll Director</td>
</tr>
<tr>
<td>Joseph Crotts</td>
<td>Head of Library Access Services</td>
</tr>
<tr>
<td>Patty Darr</td>
<td>Accounting Technician</td>
</tr>
<tr>
<td>Gordon Fercho</td>
<td>Vice President, Business and Administration</td>
</tr>
<tr>
<td>Deborah Gott</td>
<td>Pharmacist in Charge</td>
</tr>
<tr>
<td>Jeannie Graham</td>
<td>Circulation Supervisor</td>
</tr>
<tr>
<td>Pattie Hannemann</td>
<td>Director, Purchasing and Contracting</td>
</tr>
<tr>
<td>Charlie Harless</td>
<td>Warehouse Operations Manager</td>
</tr>
<tr>
<td>Barbara Holt</td>
<td>Accounts Payable Supervisor</td>
</tr>
<tr>
<td>Carey Kidd</td>
<td>Senior Secretary</td>
</tr>
<tr>
<td>Michelle Korte</td>
<td>Accountant</td>
</tr>
<tr>
<td>Terrie Mays</td>
<td>Accounting Technician</td>
</tr>
<tr>
<td>Debbie McElroberts</td>
<td>Associate Director of Distributive Services</td>
</tr>
<tr>
<td>Doreen Mendes</td>
<td>Accounting Technician</td>
</tr>
<tr>
<td>William Ray</td>
<td>Controller</td>
</tr>
<tr>
<td>Stephanie Rist</td>
<td>Director, Financial Aid Business Office</td>
</tr>
<tr>
<td>Vickie Roeth</td>
<td>Supervisor of Admissions</td>
</tr>
<tr>
<td>K.G. Sheley</td>
<td>Accounting Technician</td>
</tr>
<tr>
<td>Sandy Smith</td>
<td>Accounting Technician</td>
</tr>
<tr>
<td>Robert Sneed</td>
<td>Associate Vice President, Business and Administration</td>
</tr>
<tr>
<td>John Strict</td>
<td>Associate Director of Centralized Services</td>
</tr>
<tr>
<td>Gilbert Tyrrell</td>
<td>Property Manager</td>
</tr>
<tr>
<td>Connie Zimmerman</td>
<td>Contracting Supervisor</td>
</tr>
</tbody>
</table>
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.