

FISMA
CALIFORNIA STATE UNIVERSITY,
STANISLAUS
Report Number 97-02
June 30, 1997

Members, Committee on Audit

Ali C. Razi, Chair
James H. Gray, Vice Chair
Roland E. Arnall Ronald L. Cedillos
Bernard Goldstein Laurence K. Gould, Jr.
William Hauck Joan Otomo-Corgel
Ralph R. Pesqueira Stanley T. Wang

Staff

University Auditor: Larry Mandel
Audit Manager: Norman Buettner
Staff Auditor: Ellis Williams

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

INTRODUCTION

Purpose.....	1
Scope and Methodology	1
Background	2
Opinion	3
Executive Summary.....	3

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Cash Receipts	6
Satellite Cashiering.....	6
Fee Reconciliations	7
Frequency Of Remittances.....	8
Accounts Receivable.....	8
Purchasing	9
Revolving Fund	9
Cash Disbursements.....	10
Bank Reconciliations.....	10
Vendor Data Records	11

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Statement of Internal Controls
APPENDIX C:	Campus Response
APPENDIX D:	Chancellor's Acceptance

ABBREVIATIONS

CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
DPS	Department of Public Safety
ITS	Information Technology Systems
PO	Purchase Order
SAM	State Administrative Manual
SUAM	State University Administrative Manual

INTRODUCTION

PURPOSE

The principal audit objective was to assess the adequacy of controls and systems that 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's 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 that required annualized data, the 1995-96 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 December 1996 to March 1997. 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;

INTRODUCTION

- ▶ establishment of receivables and adequate segregation of duties over the establishing of billing or 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 and accumulation of leave credits in compliance with state policies;
- ▶ 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, Stanislaus campus from February 17, 1997 through April 7, 1997 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*.)

Our audit disclosed conditions which, in our opinion, if not corrected could result in errors and irregularities. Specifically, the campus does not maintain adequate internal control over the following areas: cash receipting, accounts receivable, and cash disbursements. 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 CASHIERING [6]

The Extended Education and Public Safety departments did not maintain a written record of who had access to their safe facilities and when access was last changed. This is a repeat finding from our prior FISMA audit. In addition, the Extended Education department did not submit all cash receipts to central cashiering in a timely manner. Increasing satellite cash collection oversight strengthens internal control and assures that all cash collections are appropriately accounted for and safeguarded.

FEE RECONCILIATIONS [7]

The campus had not completed a reconciliation of applications to application fees for the 1995-96 year. This is a repeat finding from our prior FISMA audit. Timely reconciliations of fee collections reduces the opportunity for theft to go undetected for an unspecified period of time.

FREQUENCY OF REMITTANCES [8]

Reports to the State Controller's Office (SCO) of remittances to the state treasurer were not taking place in a timely manner. Transmitting timely reports to the State Controller of remittances to the State Treasurer would increase income from Special Fund investments.

ACCOUNTS RECEIVABLE [8]

The campus had delinquent student accounts receivable dating back to 1986. This is a repeat finding from our prior FISMA audit. Writing off accounts receivable which have a low probability of being collected more accurately reflects current and future assets and possible cash flow.

PURCHASING [9]

The central receiving office was not routinely notified when purchases were delivered directly to campus departments or picked up by staff from the vendors. This is a repeat finding from our prior FISMA audit. Strengthening internal control procedures in the receiving function should result in fewer delays in tagging and recording of property items and fewer receiving department suspense items.

REVOLVING FUND [9]

Independent cash counts of petty cash/change funds were not always occurring as often as required and change funds were not always properly approved prior to their implementation. This is a repeat finding from our prior FISMA audit. Internal control over cash funds is strengthened when required independent cash counts occur on a timely basis and change funds are properly approved.

CASH DISBURSEMENTS

BANK RECONCILIATIONS [10]

Bank reconciliations were not prepared or reviewed and approved in a timely manner. The ability of the campus to detect errors and irregularities is increased when bank reconciliations are prepared and reviewed in a timely manner.

VENDOR DATA RECORDS [11]

The campus did not consistently maintain a Vendor Data Record (Form 204) on file for non-governmental vendors. Obtaining vendor data information prior to payment will reduce campus exposure to Internal Revenue Service penalties and fines.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Access to Safes/Vaults

The Extended Education and Public Safety departments did not maintain a written record of who had access to their safe facilities and when access was last changed. This is a repeat finding from our prior FISMA audit.

SAM §8024 requires that a record be kept showing individuals who have access to the safe facilities and the date the combination/access last changed.

The accounting technician and Director of Public Safety indicated that they had not been informed of this requirement.

Internal control in the safeguarding of assets is compromised when the safe combination is known by employees who leave the employ of the campus and/or by employees who no longer have a need to know the safe combination in the performance of their duties.

Delays in Deposits

The Extended Education department did not submit all cash receipts to central cashiering in a timely manner.

Cash collected in advance for non-credit course fees remained in the department up to two weeks before transfer to the central cashier.

SAM §8030.1 requires that accumulated collections of \$50 or more be deposited within five working days and no collection will remain undeposited for more than fifteen working days.

The Extended Education accounting technician indicated that these funds were received in advance from non-students for non-credit courses and the funds were held until they were sure the course would be taught in order to avoid a cumbersome refund process.

Delays in transferring cash collections to central cashiering in a timely manner increases the risk of a misappropriation of funds.

Recommendation 1

We recommend that the campus improve procedures at the satellite cashiering centers to ensure that:

- a. written records are maintained of those individuals who have access to the safekeeping facilities and the dates the combinations were last changed; and
- b. all cash receipts are remitted to central cashiering in a timely manner.

Campus Response

Corrective action has already been implemented on this request. Fiscal Affairs has shared cashiering procedures for maintaining safe access and combination change logs and with Public Safety and Extended Education, and the University Controller will ensure these are routinely updated.

Timely remittance of Extended Education cash receipts has been an ongoing problem with that office due to the nature of their business. Procedures will be established by the first of September for cash remittances that conform to state requirements and meet department requirements as well.

FEE RECONCILIATIONS

The campus had not completed a reconciliation of applications to application fees for the 1995-96 year. This is a repeat finding from our prior FISMA audit.

SUAM §3825.01 requires the preparation of a reconciliation for each academic year term and maintained on file by each campus.

The university controller indicated that incompatibility between the accounting and admissions office databases rendered the reconciliation process unattainable.

The lack of timely reconciliations of fee collections allows for a possible theft to go undetected for an unspecified period of time.

Recommendation 2

We recommend that the campus perform a reconciliation of applications for admission to application fees collected each academic term.

Campus Response

The campus tried to reconcile accounting records to admissions records each month after the last audit, but it proved to be a very lengthy and time consuming process since each area keeps track of applications in a different way. This will be resolved effective Fall 1997.

FREQUENCY OF REMITTANCES

Reports to the State Controller's Office (SCO) of remittances to the State Treasurer were not taking place in a timely manner.

A review of reporting timeliness for the months of December 1995 through February 1996 indicated that during our sample period cash collections regularly exceeded \$100,000 and reports to the SCO were up to four weeks late.

SUAM §3823 requires remittances to be submitted to the State Treasurer at least monthly or when collections exceed \$100,000.

The university controller indicated that a significant loss of staff caused the lateness of reporting remittances to the SCO.

Failure to file reports on a timely basis results in lost interest income to special funds.

Recommendation 3

We recommend that the campus improve procedures to assure that reports to the State Controller's Office of deposits to the State Treasurer are submitted as required.

Campus Response

Corrective action has already been implemented on this request. Appropriate procedures are in place to report cash remittances to the State Controller's Office. Fiscal Affairs underwent a major staff turnover during the 1995-96 fiscal year and there was a period of time during the transition that remittances were not done on a timely basis. They are now being done on a regular basis within the SUAM guidelines.

ACCOUNTS RECEIVABLE

The campus had delinquent student accounts receivable dating back to 1986. This is a repeat finding from the prior FISMA audit. No use had been made of the local write-off and relief from accountability methods for eighteen accounts in the amount of \$13,000 and over a year old.

SAM §8776.6 suggests that accounts declared uncollectible or with a low probability of collection be written-off after all reasonable collection procedures do not result in payment.

The university controller indicated that these delinquent accounts were related to the dormitory and the Housing department requested they not be written off.

By carrying delinquent accounts that have a low probability of collection, the campus is misstating the accounting records and potential cash position.

Recommendation 4

We recommend that the campus improve collection procedures to include the use of the local write-off and relief from accountability methods for outstanding accounts receivable if all reasonable collection procedures do not result in payment.

Campus Response

Corrective action has already been implemented on this request. All old housing receivables under \$1,000 have been written off by the campus and letters have been sent to the State Board of Control for those over \$1,000.

PURCHASING

The central receiving office was not routinely notified when purchases were delivered directly to campus departments or picked-up by staff from the vendors.

The support services policies and procedures manual indicated that all shipments from vendors to the university for items procured by the purchasing office would be received and checked by the central receiving department.

The university controller indicated that campus departments do not routinely notify central receiving when purchased items are picked up directly from the vendor.

Inadequate control over receiving operations results in delays in the processing of vendor payments, in the recording of property on the campus inventory, and in tagging property.

Recommendation 5

We again recommend that the campus implement procedures to assure that central receiving is properly notified of all receipt of goods in a timely manner.

Campus Response

Fiscal Affairs and Receiving are working together to devise appropriate procedures for notification of goods received. This is a process improvement and inter-departmental training issue that is being remedied during implementation of the procurement card program during Fall 1997.

REVOLVING FUND

Independent cash counts of petty cash/change funds were not always occurring as often as required and change funds were not always properly approved prior to their implementation. This is a repeat finding from our prior FISMA audit.

Our review indicates that twelve of the twenty-four campus petty cash/changes funds were not counted as frequently as required. Finally, the campus did not obtain the required approval from the Department of Finance for a change fund established by the library for more than \$750.

SAM §8111.2 requires that an employee other than the custodian of the petty cash or change fund count each fund in accordance with a prescribed schedule. SAM §8111.1 requires approval from the Fiscal Systems and Consulting Unit, Department of Finance for change funds in excess of \$750.

The director of student financial services indicated that his expanded duties due to the staff reorganization in fiscal affairs did not provide the time required to properly count the cash funds.

Internal control over cash funds is compromised when required independent cash counts do not occur on a timely basis and change funds are not properly approved.

Recommendation 6

We recommend that the campus:

- a. establish independent cash counts of all petty cash/change funds as required and;
- b. strengthen existing procedures to assure that change funds are properly approved prior to their implementation.

Campus Response

Corrective action has already been implemented on this request. Cash counts of petty cash/change funds are currently being managed according to state guidelines. A letter has been sent to the Fiscal Systems and Consulting Unit of the Department of Finance for permission to maintain an \$800 change fund for library services.

CASH DISBURSEMENTS

BANK RECONCILIATIONS

Bank reconciliations were not prepared or reviewed in a timely manner.

As of February 28, 1997, the last reconciliation was completed in July 1996. In addition, the bank reconciliations did not include the name of the preparer and reviewer and the date prepared and reviewed.

SAM §7900 and §8060 require all bank and centralized treasury system accounts to be reconciled monthly within thirty days of the preceding month. SAM §7908 also requires all reconciliations to show the name of the preparer and reviewer including the date the reconciliation was prepared and reviewed.

The university controller indicated that a significant loss in staff resources during the year contributed to this delinquency.

The timeliness of bank reconciliations, as well as their review, affects the capability of the campus to detect errors and irregularities.

Recommendation 7

We recommend that the campus prepare and review bank reconciliations on a more timely basis and not more than thirty days after the end of the preceding month.

Campus Response

Corrective action has already been implemented on this request. Bank reconciliations were behind due to the large staff turnover during the 1995-96 fiscal year but were, however, completed by June 30, 1996. Reconciliations are now timely and are completed each month with follow up and corrections as needed.

VENDOR DATA RECORDS

The campus did not consistently maintain a Vendor Data Record (Form 204) on file for non-governmental vendors. In those instances where the Form 204 was not on file, the campus did not withhold the required 20 percent of the invoice amount.

SAM §8422.19 requires a Vendor Data Record (Form 204) be kept on file for payments of at least \$600 to all non-governmental entities and payments to individuals, medical corporations and partnerships. If the form 204 is not completed by the vendor and the required data is not otherwise provided, the payment is to be reduced by 20 percent for federal withholding.

The accounts payable manager stated it was not always feasible to withhold payments from the vendors until receipt of the form 204s.

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 is 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 or the State Franchise Tax Board.

Recommendation 8

We recommend that the campus obtain and retain as required Vendor Data Records (Form 204) on file for all non-governmental entities.

Campus Response

Fiscal Affairs is in the process of reviewing the Vendor Data Record files and comparing them to the current vendor listing. All vendors that do not have a Form 204 on file are being sent a form to complete and return to us. This project will be completed no later than September 1997. The campus will pursue other less paper-intensive avenues for compliance, including the possibility of using a CSU database for vendors who do business across campuses.

**APPENDIX A:
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Marvalene Hughes	President
Renee Anderson	Accounts Receivable Bookkeeper
Frank Borrelli	Property/Records Coordinator
Clive Houston-Brown	Director, Institutional Technology, Office of Information Technology
Joyce Carranza	Benefits Coordinator
Carol Castillo	Director, Procurement and Property Accounting
Joseph Donahue	Director of Athletics
April Filson	Accounts Payable Technician
Francesca Fovinci	Accountant
Delfin Guillory	Accounting Technician
Patricia Hendricks	Accounting Technician
Tammy Horner	Head Buyer
Carol Huth	Payroll Technician
Pat Jones	Student Collections
Dosie Lewis	Head Cashier
Dwayne Machado	Circulation Coordinator, Library
Becka Paulsen	University Controller
James Phillips	Director, Student Financial Services
Lynnette Richmond	Accounting Technician, Extended Education
Maynard Robinson	Vice President for Business and Finance
Robert Rosas	Receiving Clerk
James Shaw	Director of Public Safety
Shannon Watson	Manager of Accounts Payable
Julie Wheeler	Trust Fund Accountant
John Waayers	University Budget Officer

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.

APPENDIX B

Page 2 of 2

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.