FISMA

SAN DIEGO STATE UNIVERSITY

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BOARD OF TRUSTEES

THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

CSU	California State University
DOF	Department of Finance
FISMA	Financial Integrity and State Manager's Accountability Act
IVC	Imperial Valley College
SAM	State Administrative Manual
SCO	State Controller's Office
SDSU	San Diego State University
SUAM	State University Administrative Manual

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’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 which 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 November 1996 to April 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;
- 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 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 San Diego State University from March 3, 1997 through April 25, 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.)*

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 was 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 [5]

The uncleared collections account was not researched and cleared in a timely manner. This is a repeat finding from both our prior FISMA audit and a Department of Finance audit. Resolving payroll items in the uncleared collections account eases the reconciliation process and correctly states campus liabilities and receivables.

ACCOUNTS RECEIVABLE [5]

Employee payroll accounts receivables were not collected/discharged in a timely manner. This is a repeat finding from both our prior FISMA audit and a Department of Finance audit. Establishing procedures to properly manage and follow up on employee payroll accounts receivables will increase the likelihood that all amounts owed will be collected, discharged or cleared.

REVOLVING FUND [6]

Change and petty cash funds were not always provided appropriate custodial oversight. Proper oversight and documentation of custodial responsibility with regard to change/petty cash funds both reduces the risk of loss, and increases employee accountability.

FIXED ASSETS [7]

Existing procedures did not ensure timely removal of lost or stolen property from the inventory. Notifying the Material Management Office of all lost and stolen property will assist the campus in accurately stating inventory and fixed asset accounts.

FISCAL INFORMATION TECHNOLOGY [8]

The campus had not formalized and distributed an information technology disaster recovery plan. To assure that business operations can continue or return to normal operations after a disruptive event such as an earthquake, the campus should formalize and distribute a disaster recovery plan.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

The uncleared collections account was not researched and cleared in a timely manner. This is a repeat finding from both our prior FISMA audit and a Department of Finance audit.

As of February 28, 1997, the uncleared collections account included $46,092 in unresolved payroll related items ranging from 90 days to two years old.

SAM §20003 requires a system of internal procedures that provide effective accounting control over assets, liabilities, revenues and expenditures.

The campus indicated that Payroll Services must resolve the payroll-related issues before the items can be removed from the uncleared collections account.

Unresolved payroll items in the uncleared collections account burdens the reconciliation process and may misstate liabilities and receivables.

Recommendation 1

We recommend that the campus clear items from the uncleared collections account in a timely manner.

Campus Response

We concur and will comply as follows:

- Immediately: All new items to be addressed within 90 days.
- February 1, 1998: Analyze/distribute balances generated February 1, 1997 or earlier.
- June 1, 1998: Analyze/distribute balances generated between February 1, 1997 and March 1, 1998.

ACCOUNTS RECEIVABLE

Employee payroll accounts receivable were not collected/discharged in a timely manner. This is a repeat finding from both our prior FISMA audit and a Department of Finance audit.

As of February 28, 1997, $198,043 was outstanding in payroll overpayment receivables ranging from 60 days to fourteen years. Campus procedures did not include write off of long outstanding payroll accounts receivables.

SAM §8776.6 and §8776.7 require state agencies to develop collection procedures that will assure prompt follow-up of accounts receivable. Executive Order No. 616 and SAM §8776.6 outline discharge of accountability procedures for receivables that are determined to be uncollectable or where the amount does not justify the collection costs.

The payroll services manager indicated that daily payroll activities had priority over employee receivables follow-up. Further, the accountant, accounting services informed us that Payroll Services must authorize the write off of uncollectable receivables.

Not following up and properly managing employee receivables reduces the likelihood that all amounts owed will be collected. Reporting receivables that have a low probability of being collected, discharged, or cleared will misstate assets.

Recommendation 2

We again recommend that the campus establish procedures to timely manage and follow up on outstanding employee payroll receivables and enact relief from accountability procedures for uncollectable receivables.

Campus Response

We concur and will comply as follows:

- Immediately: All new items to be addressed within 90 days.
- February 1, 1998: Analyze/collect on/request write off of balances generated February 1, 1996 or earlier.
- June 1, 1998: Analyze/collect on/request write off of balances generated after February 1, 1996.

REVOLVING FUND

Change and petty cash funds were not always provided appropriate custodial oversight.

Five of the campus's 23 change funds and four of its seven petty cash funds were not properly documented and maintained. We noted the following:

- Student Health Services combined and operated as one, a $250 and $400 change fund without approval from the Business and Financial Affairs Office.

- Custodians of record were not the personnel in possession of the Student Health Services and the Exercise & Nutrition petty cash funds or the Parking & Permits change fund.

- The approval to increase the Art Department's petty cash fund by $150 and a transfer receipt for that amount could not be provided by campus personnel.

- The transfer receipt for the current custodian of change fund number eight in the Cashier's Office could not be provided by campus personnel.

- The last documented independent cash count of Imperial Valley College's (IVC) $450 petty cash fund was 8/23/90 and no documentation could be provided by campus personnel to support any count of IVCs $250 change fund.

SAM §20003 requires a system of record-keeping procedures that provide effective accounting control over assets. Further SAM §8111.2 requires a quarterly counting of change/petty cash funds greater than $200.

The university controller indicated that in the first two instances above, he was unaware of the condition and that the last three cases were oversights.

Inadequate oversight and documentation of custodial responsibility with regard to change/petty cash funds both increase the risk of loss and reduce employee accountability.

Recommendation 3

We recommend that the campus properly document custodial responsibility with respect to all change/petty cash funds and ensure that independent cash counts of change funds occur as frequently as required.

Campus Response

Corrective action has been completed.

FIXED ASSETS

Existing procedures did not ensure timely removal of lost or stolen property from the inventory. Material Management was not notified by campus departments of all lost or stolen property that should have been removed from the property inventory.

Our sample of eleven campus property theft reports disclosed that the Material Management Office was not informed of nine property loses (82%) with an estimated value of $23,385.

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

At the time of our review, campus procedures required departments to notify the Material Management Office of property that is lost or stolen. For further assurance that stolen property is removed from inventory, the supervisor, material management indicated that she also relied on Public Safety to forward copies of theft reports.

Failure to notify the Material Management Office 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 campus establish procedures to timely notify the Material Management Office of all campus property that is lost or stolen.

Campus Response

Corrective action has been completed.

FISCAL INFORMATION TECHNOLOGY

The campus had not formalized and distributed an information technology disaster recovery plan.

SAM §4843.1 requires each state agency to establish and maintain both an operational recovery plan to protect its information assets in the event of a disaster or serious disruption to its operations, and the agency's plans for resuming operations following a disaster affecting those applications.

The university computer operations director indicated that disaster recovery issues have been addressed among campus management but a written document has not been formalized.

Without a disaster recovery plan, the campus may not be able to assure continuity of computing operations for support of critical applications, produce the greatest benefit from remaining limited resources and achieve a systematic and orderly migration toward the resumption of all computing services.

Recommendation 5

We recommend that the campus formalize and distribute a disaster recovery plan.

Campus Response

We concur and will comply as follows:

- November 1997: Written plan without platform reciprocity details.
- June 30, 1998: Written plan with platform reciprocity included.

APPENDIX A:
PERSONNEL CONTACTED

Name	Title
Stephen Weber	President
Cindy Batzler	Accounting Technician
Elizabeth Brilliant	Purchasing Programs Coordinator
Sharon Chapman	Payroll Services Manager
Leslie Chase	Financial Reporting Administrator
Peggy Daulton	Records Clerk, Public Safety
Jan De Steunder	Office Manager, Test Office
Linda Dotson	Manager, University Collections
Cathy Garcia	Assistant to Director of Procurement/Unit Supervisor
Ellene Gibbs	Director, Internal Review and Business Information Systems
Dan Gilbreath	University Controller
Denise Gove	Supervisor, Material Management
Debra Hegmann	Accounting Technician
Taher Irani	Accounting Technician
Jan Kunsa	Assistant Director, Student Health Services
Loretta Leavitt	Accountant, Accounting Services
Janifer Leung-Lau	Accountant, Financial Aid
Virginia Litonjua	Assistant to the Controller
Kay Messinger	Business Information Systems Director
Jeanette Nevandro	Accounting Technician
Robert Newhouse	University Computer Operations Director
Cindy Ormsby	Accounting Technician
Mary Ann Patty	Manager University Cashiers
Carmen Peak	Purchasing Manager
Lawrence Peralez	Business Services Officer
Kenneth Perry	Director, Financial Management
Deborah Quiett	Manager, Student Financial Services
Francine Ritchie	Office Operations Manager
Richard Scharff	Director of Procurement
Wendy Schmidt	Circulation Desk Supervisor
Thomas Schultheis	Administration Associate Director, Public Safety
Connie Sincavage	Accounting Technician
Sandra Spahn	Accountant, Residence Hall
April Stammerjohn	Manager, Accounts Payable
Sheri Yelthuysen	Head Cashier Student Health Service

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.