

**FISMA**  
**CALIFORNIA STATE UNIVERSITY,**  
**FRESNO**

**Report Number 97-04**  
**September 9, 1997**

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**ABBREVIATIONS**

CSU California State University

DOF Department of Finance

DMV Department of Motor Vehicles

DPS Department of Public Service

FISMA Financial Integrity and State Manager’s Accountability Act

SAM State Administrative Manual

SUAM State University Administrative Manual

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## INTRODUCTION

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### 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 July 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;
- ▶ 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.

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## OPINION

We visited the California State University, Fresno from March 31, 1997 through May 14, 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 would likely result in significant errors and irregularities. Specifically, the campus does not maintain adequate internal control over the following areas: Cash Receipting, Accounts Payables, and Fixed Assets. Other areas needing improvement are found in the Executive Summary.

## **EXECUTIVE SUMMARY**

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

### **CASH RECEIPTS**

#### **SATELLITE CASHIERING [7]**

Cash control weaknesses were found at two satellite cashiering locations during our review. Adequately controlling and accounting for cash collections and deposits reduces campus exposure to loss from inappropriate acts.

#### **PARKING OPERATIONS [8]**

Our review of parking operations indicated deficiencies in internal control over parking citation and parking permit revenues. Ensuring timely and accurate accountability of parking revenue reduces campus exposure to loss from inappropriate acts.

#### **FEE RECONCILIATIONS [10]**

The campus did not accomplish either application or state university fee reconciliations during FY 95-96. This is a repeat finding from our prior FISMA audit and a 1991 Department of Finance audit. Reconciling fees reduces the risk of errors or misappropriation of fees going undetected.

### **ACCOUNTS RECEIVABLE**

#### **AUXILIARY ORGANIZATION BILLINGS [11]**

The campus was not pursuing all options in resolving delinquent accounts receivable from an auxiliary organization. Timely follow up and collection of accounts receivable reduces the risk of uncollectable amounts and increases working capital.

### **PURCHASING**

#### **PURCHASE ORDER ADJUSTMENTS [12]**

Campus policy regarding purchase order adjustments without a change order conflicted with state policy. Preparing and submitting change orders for all purchase order adjustments increases internal control and reduces the risk of misuse of state funds.

## **RECEIVING DEPARTMENT-TRANSFER ACCOUNTABILITY [13]**

The receiving department has not established transfer accountability procedures for goods delivered to other campus departments. Requiring a receipt for goods at the point of delivery reduces the risk of loss from inappropriate acts.

## **REVOLVING FUND**

### **PETTY CASH AND CHANGE FUNDS [14]**

Petty cash and change fund custodians did not consistently follow campus procedures. Strengthening petty cash and change fund controls reduces the risk of loss from inappropriate acts.

### **ACCOUNTS PAYABLE [15]**

The duties of the accounts payable technicians were not adequately separated. Proper separation of duties reduces the risk of state funds misuse.

## **FIXED ASSETS**

### **STOLEN PROPERTY [16]**

Existing procedures did not ensure removal of all stolen property from the property inventory. This is a repeat finding from our prior FISMA audit. Timely documentation of property items removed from service reduces misstatements in the property inventory records and the general ledger fixed asset account.

### **AUCTIONED PROPERTY [16]**

The campus did not assure proper accountability over surveyed assets removed from the campus for sale at public auction. Establishing transfer accountability procedures reduces the risk of loss from inappropriate acts.

## **TRUST FUNDS**

### **TRUST ACCOUNTS [17]**

The campus had not notified trust account holders in writing that investment earnings were being held to offset administrative overhead costs. Notifying trust account holders in writing of the practice to withhold investment earnings reduces misunderstandings related to interest allocations.

## **TRUST AGREEMENTS [18]**

Trust agreements were not always adequately documented. Obtaining all required data for each trust account will reduce the potential for loss or misuse of trust funds.

## **POLICY AND PROCEDURES MANUAL [18]**

The campus had not developed a policy and procedures manual in the areas of accounts receivable, accounts payable, and investment of trust funds to communicate control requirements to all appropriate constituents. This is a repeat finding from a prior FISMA audit. Internal controls are strengthened when policies and procedures are documented and communicated to employees.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### CASH RECEIPTS

#### SATELLITE CASHIERING

Cash control weaknesses were found at two satellite cashiering locations during our review.

##### Library

- The library circulations department did not have a safe or vault for the safekeeping of cash collections.
- Daily cash collections were neither reconciled to cash register totals nor deposited timely.
- Fine waivers were not adequately controlled. As many as six staff and 25 students had the ability to waive fines without secondary or supervisory review.

##### Health Center

- Cash collections were not deposited timely. Our review showed that deposits were generally made once per week.
- Pharmacy sales subsidiary records were not reconciled to cash collections.

SAM §20003 states that there should be an established system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

SAM §8030.1 requires the deposit of accumulated cash collections of \$500 or \$5,000 cash, money orders, and warrants (excluding state warrants and state checks) whichever occurs first, except that accumulated collections totaling \$50 or more will not remain undeposited for more than fifteen working days and that agencies will not withhold receipts for the purpose of establishing or augmenting change funds, but will deposit all funds received intact.

The campus cashier had not distributed cash collection procedures to satellite collection locations. Additionally, the circulations librarian, and the health center administrator and pharmacist stated that the campus Department of Public Safety (DPS) dispatches uniformed officers to transport their cash collections to the central cashiering office. DPS officers picked up cash collections only once per week.

Inadequate accounting and control of cash collections and deposits increases the risk that misappropriation of funds may go undetected.

### **Recommendation 1**

We recommend that the campus take the following actions with respect to satellite cashiering operations:

- a. ensure that all cash collections are deposited timely;
- b. establish procedures to ensure that cash collections are adequately safeguarded at satellite locations;
- c. establish appropriate reconciliation procedures to ensure proper accountability of cash collections; and
- d. establish procedures to ensure that library fine waivers are adequately controlled.

### **Campus Response**

We agree with the recommendation.

- a. Daily pick-up procedures have been worked out and implemented between campus security and satellite locations to ensure that cash collections are picked up and deposited on a daily basis.
- b. The Library has purchased a safe and is now using this for safekeeping of its daily collections. This now secures cash collections at the satellite locations until the deposits are made.
- c. Pharmacy sales subsidiary records are now being reconciled to cash collections on a daily basis.
- d. The Library has now established a fee waiver policy and implemented procedures to ensure that library fine waivers are now only granted by staff members. In addition, the new procedure calls for all fee waivers to be reviewed by the circulation department supervisor.

## **PARKING OPERATIONS**

Our review of parking operations indicated deficiencies in internal control over parking citation and parking permit revenues.

### Parking Citations

- Citation collections were not reconciled to daily receipting records.
- Cash collections were not deposited timely.
- Because of the small number of people working in the parking office (4), some staff could collect cash, issue written receipts, and post transactions creating an issue of proper separation of duties.
- A minimum of four parking office staff could administratively dismiss parking citations without proper authorization from the designated hearing officer.

- Parking operations had established the practice of entering into promissory agreements with students allowing them to make partial payments on parking citations. Parking operations management estimates that there is \$50,000 in unpaid promissory notes receivable.
- Unpaid parking citations were not recorded as accounts receivable on the campus general accounting records.
- Parking fines collected by the Department of Motor Vehicles (DMV) were not reconciled to the number of citations paid.

Parking Permits.

- Parking permit sales were not reconciled to actual collections.
- Parking permits dispensed at the campus courtesy booth and the parking administrative office were not accounted for each day when permit usage was reconciled to cash collections.
- Unsold parking permits removed from permit dispensers were destroyed and not subject to reconciliation of actual collections.

SAM §20003 states that there should be an established system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

SAM §8030.1 requires the deposit of accumulated cash collections of \$500 or \$5,000 cash, money orders, and warrants (excluding state warrants and state checks) whichever occurs first, except that accumulated collections totaling \$50 or more will not remain undeposited for more than fifteen working days and that agencies will not withhold receipts for the purpose of establishing or augmenting change funds, but will deposit all funds received intact.

The campus cashier had not distributed cash collection and accountability procedures to satellite locations. The parking administrator stated that he periodically attempted to reconcile parking citation and parking permit collections to receipting records. The parking assistant stated that mail-in payments generally were not processed the day received. Further, the parking administrator stated that citation promissory payment agreements were instituted as a service to students and that it was a campus practice to not record parking citations to the general ledger.

Deficiencies in internal control over parking revenue increase campus exposure to loss from inappropriate acts.

**Recommendation 2**

We recommend that the campus:

- a. establish appropriate reconciliation procedures to ensure proper accountability of cash collections;
- b. deposit all cash collections timely;

- c. establish procedures to ensure that the dismissal of parking citations is adequately controlled;
- d. determine the appropriateness of the practice of entering into promissory agreements allowing students to make partial payments on parking citations;
- e. record all unpaid parking citations as receivables on the general accounting records; and
- f. assure that parking office staffing duties are appropriately segregated.

### **Campus Response**

We concur with the recommendation.

- a. Procedures were implemented in the parking office and collections are now being reconciled on a daily basis.
- b. Campus security has implemented a daily pick up schedule to ensure that cash collections are Deposited on a daily basis.
- c. Parking office policy has been changed and operating procedures implemented so that the Parking administrator must now review and sign off on all adjudications.
- d. The practice of entering into promissory agreements has been discontinued. When all current Agreements are collected, promissory receivables will no longer exist.
- e. A review of outstanding parking citations for the 96/97 fiscal year was completed. Although the figure for outstanding receivables as of June 30, 1997 was received too late to include in the General Ledger, the receivables will be accrued and will be part of the receivables balance showing in the GAAP financial statements as of June 30, 1997.
- f. The parking office has contracted with Phoenix Corporation for the collection of mail order Payment of parking citations. It is estimated that this will move approximately 95% of the cash collections from the parking office to this outside entity. The parking office will continue to review and implement additional procedures to properly segregate duties.

### **FEE RECONCILIATIONS**

The campus did not accomplish either application or state university fee reconciliations during FY 95-96. This is a repeat finding from our prior FISMA audit and a 1991 Department of Finance audit.

SUAM §3825 requires a reconciliation of applications for admission to fees received and a reconciliation of state university fees to enrollments.

The director of Accounting Services stated it was his understanding that he and his staff had worked with the campus computer services center to try and obtain the data necessary to accomplish the application and state university fee reconciliations. However, the computer center did not have the resources to commit to the reconciliation process. In discussions with the associate vice president for Information Systems and Technology, we were informed that a new student information system is planned for the campus and will include data for the state university and application fee reconciliations.

By not reconciling fees, errors or misappropriation of funds may go undetected.

### **Recommendation 3**

We recommend that the campus reconcile admission applications to fees received and state university fees to enrollments each academic term.

### **Campus Response**

We agree with the recommendation and are initiating action to insure that fees are reconciled.

Programming resources have been made available and a program is being written to reconcile the State University Fee. In order to provide software development support for fee reconciliation issues and other business office software needs, two initiatives are currently under way. The first is to contract for short-term program development to meet the immediate need of finalizing the current fee reconciliation needs. The second initiative involves the hiring of a long term temporary staff member whose primary responsibility will be the maintenance of business office software. This recruitment is expected to be completed by December 1, 1997.

## **ACCOUNTS RECEIVABLE**

### **AUXILIARY ORGANIZATION BILLINGS**

The campus was not pursuing all options in resolving delinquent accounts receivable from an auxiliary organization. At the time of our review, the CSU Fresno Athletic Corporation owed the campus in excess of \$1 million, primarily for current fiscal year salary reimbursement.

SAM §8776.6 prescribes specific steps to be followed to collect unpaid debts owed state agencies including the use of collection agencies.

The director of Accounting Services stated that various meetings were held with the Athletic Corporation to discuss payment of the amount due and was informed that the reason for non-payment was cash flow difficulties. He stated that a similar cash flow problem occurred in the prior year, and it is likely that a similar situation will happen during the coming year.

Uncollected receivables have a negative impact on cash flow and investment earnings to the state.

**Recommendation 4**

We recommend that the campus ensure timely follow-up to collect amounts due from the Athletic Corporation.

**Campus Response**

We concur with the recommendation. The Athletic Corporation has paid off all outstanding prior year receivables and Athletic Corporation management is working on a plan to ensure timely payment of university invoices for future periods. It is anticipated that the plan may take up to three years to move the Athletic Corporation to a position where payments can be maintained on a current basis.

**PURCHASING**

**PURCHASE ORDER ADJUSTMENTS**

Campus policy regarding purchase order adjustments without a change order conflicted with state policy.

Campus policy permitted accounting office staff to administratively adjust purchase orders upwards by the greater of \$100 or 10 percent without approval by either the procurement office or requisitioning department.

SAM §3566.2 requires the preparation of a change order whenever there is a difference of \$10 or 10 percent over the original purchase order amount for commodity purchases.

The director of Accounting Services stated that the campus policy was intended to stem cost/benefit inefficiencies in producing change orders.

The campus risks rejection of expenditure reimbursements from the State Controller's Office by not limiting purchase order administrative adjustments to authorized amounts.

**Recommendation 5**

We recommend that the campus follow authorized state procedures for purchase order changes.

**Campus Response**

The campus established a policy to achieve efficiencies in processing small dollar adjustments to purchase orders. This policy operated for three months. Upon notification from auditors that this policy was inconsistent with authorized state procedures, it was immediately discontinued.

## **RECEIVING DEPARTMENT-TRANSFER ACCOUNTABILITY**

The receiving department had not established transfer accountability procedures for all goods delivered to other campus departments.

Receiving department staff was accepting goods without a purchase order under the newly instituted alternative purchasing authority granted to campus departments. However, receiving reports were not prepared and there was no receipt obtained for these goods when delivered to the ordering department.

SAM §20003 states that a satisfactory system of internal accounting and administrative control includes a plan of authorization and recordkeeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

According to the warehouse supervisor, the need for establishing transfer accountability when delivering purchased goods on campus had not been considered since the inception of alternative purchasing.

Non-implementation of transfer accountability procedures increases the risk of loss from inappropriate acts.

### **Recommendation 6**

We recommend that the campus require a receipt for all goods delivered from the warehouse to the various departments.

### **Campus Response**

We agree with the recommendation. Procedures have already been implemented to correct this finding. Signatures are required from the departments whenever goods are delivered, and a log is kept.

## REVOLVING FUND

### PETTY CASH AND CHANGE FUNDS

Petty cash and change fund custodians did not consistently follow campus procedures.

We found that:

- Five fund custodians had conducted counts of their change and petty cash funds.
- One petty cash custodian had authorized several reimbursements to herself.

SAM §8111.2 states that an employee other than the custodian of the change or petty cash fund will count it.

SAM §20003 states that a good system of internal control includes a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The director of Accounting Services indicated that in his instructions to campus departments, he stated that the fund custodians could not perform the periodic counts of petty cash and change funds. However, some custodians have not complied with the instructions. The director of Accounting Services stated that he was aware of the non-compliance issues and that he was in the process of contacting the petty cash custodians to correct the problems.

Inadequate internal control over change and petty cash funds increases the risk of loss from inappropriate acts.

#### **Recommendation 7**

We recommend that the campus strengthen procedures to assure that:

- a. all change and petty cash funds are subject to independent cash counts; and
- b. reimbursements to fund custodian are appropriately approved.

#### **Campus Response**

- a. We partially disagree with this audit comment in that the campus has procedures in place and these procedures were in the process of being completed when the auditors arrived. All change and petty cash funds were independently reviewed and the process of subjecting each fund to an independent cash count was completed prior to the end of the fiscal year, but after the audit was completed.

- b. Procedures in the accounting office were established to ensure that a signature is obtained from authorized department personnel prior to making reimbursements. Reimbursements are no longer being made solely on the custodian's signature.

## **ACCOUNTS PAYABLE**

The duties of the accounts payable (AP) technicians were not adequately separated.

We found that AP technicians were creating and updating vendor master files, receiving returned vendor checks which they generated, and overriding system edits on batch payments without supervisory review or approval.

SAM §20003 states that a satisfactory system of internal accounting and administrative control shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets.

The director of Accounting Services indicated that downsizing and budget cutbacks resulted in additional duty assignments being given to staff.

Inadequate separation of duties increases the risk that state funds will be misused.

### **Recommendation 8**

We recommend that the campus separate accounting duties in a manner that will strengthen existing internal controls in the accounts payable unit.

### **Campus Response**

We concur with the recommendation. Procedures have been implemented and are now in place so that returned vendor checks are not handled by the accounts payable staff. All returned checks go to an individual outside of this area. On the issue of accounts payable technicians creating their own vendor files, the current purchasing system is a stand alone system and is not integrated with accounts payable. This necessitates that accounts payable have and maintain its own vendor file. This issue will be resolved with the implementation of a new financial accounting system that the campus is in the process of implementing. The new financial system will include an integrated vendor file used by both purchasing and accounts payable. Target date for implementation of this system is next Fall.

## **FIXED ASSETS**

### **STOLEN PROPERTY**

Existing procedures did not ensure removal of all stolen property from the property inventory. This is a repeat finding from our prior FISMA audit.

We noted that \$55,040 of a total of \$73,485 in reported FY 95-96 thefts of property was not communicated to the property office for removal from the property inventory.

SAM §8643 stated that a property survey report will be prepared for stolen property and that the property accounting records will be adjusted accordingly.

Neither the Department of Public Safety nor the applicable department was notifying the property office to have all stolen items surveyed from the property inventory.

Failure to timely document property items removed from service results in misstatements in the property inventory records and the general ledger fixed asset account.

#### **Recommendation 9**

We recommend that the campus strengthen procedures to ensure that all stolen property is surveyed and removed from the property inventory timely.

#### **Campus Response**

We concur with the recommendation and have initiated procedures so that copies of the stolen property reports filed with campus security are sent to inventory control. These copies will now be the source for removing property from the inventory on a timely basis.

### **AUCTIONED PROPERTY**

The campus did not assure proper accountability over surveyed assets removed from the campus for sale at public auction.

SAM §8600 states that property accounting procedures are designed to maintain uniform accountability for state property. These standard procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate accounting records and strong internal controls must be in place to protect against and detect the unauthorized use of state property.

The property clerk indicated that he had not considered the need for the auctioneer to receipt for all property removed from the campus for public auction.

The risk of errors and irregularities is increased when state property is transferred off-campus for sale without a receipt from the auctioneer.

**Recommendation 10**

We recommend that the campus assure that the auctioneer receipts for all surveyed property removed from the campus for public auction.

**Campus Response**

We agree with the recommendation. Procedures have been initiated and are now in place to insure that the auctioneer signs and dates a form, as well as providing a written receipt for all items sold.

**TRUST FUNDS**

**TRUST ACCOUNTS**

The campus had not notified trust account holders in writing that investment earnings were being held to offset administrative overhead costs.

SUAM §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 director of Accounting Services stated that both the vice president for Administration and the university controller verbally approved the withholding of trust investment earning to cover administrative costs. However, notice was never given to the trust account holders.

Failure to notify trust account holders that investment earnings will be withheld to offset administrative costs increases misunderstandings related to interest allocations.

**Recommendation 11**

We recommend that the campus give written notice to trust account holders that investment interest earnings will be withheld to cover administrative costs.

**Campus Response**

Trust instruments have been re-designed to include all required information. Notice to trust account holders is included providing notice that interest is not distributed, but rather is used to help cover or

reduce administrative rates to users. These new trust agreements are being disseminated to all current trust fund holders and will be used henceforth.

## **TRUST AGREEMENTS**

Trust agreements were not always adequately documented.

Our review of ten trust agreements indicated the following:

- Reporting requirements were not documented in nine instances;
- There were no instructions for closing the trust accounts in eight instances;
- Time constraints were not documented in two instances; and
- Trust agreements did not show the dispositions of unexpended balances in eight instances.

SAM §19440.1 requires that each trust account shall be supported by documentation as to the reporting requirements, instructions for closing the account, time constraints, and the disposition of unexpended balances.

The trust accounting technician indicated that she was not aware of the specific requirements for the establishment of trust accounts.

By not recording all required trust account information, the campus risks loss from unauthorized acts.

### **Recommendation 12**

We recommend that the campus assure that all trust accounts are properly supported by the required documentation.

### **Campus Response**

Trust instruments have been re-designed to include all required information. These new trust agreements are being disseminated to all current trust fund holders and must be completed and returned by mid November so that our files can capture all required information.

## **POLICY AND PROCEDURES MANUAL**

The campus had not developed a policy and procedures manual in the areas of accounts receivable, accounts payable, and investment of trust. This is a repeat finding from our prior FISMA audit.

SAM §20003 states that the nonexistence of policy and procedural or operational manuals is a danger signal of a vulnerable control system.

The director of Accounting Services stated that there had been some effort toward developing a policy and procedures manual but that it was still on going.

Internal controls can be compromised if not properly documented and communicated to campus employees

**Recommendation 13**

We recommend that the campus establish and disseminate written policy and procedures for the areas of accounts receivable, accounts payable, and trust accounting.

**Campus Response**

We agree with the recommendation. Currently, our campus is in the process of implementing a new financial accounting system and establishing written policies and procedures makes for good business practices. Starting with the areas of accounts payable, accounts receivable, and trust accounting, the accounting office will begin to develop procedure manuals in these areas, with an estimated completion of Fall 1998.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
John D. Welty	President
Benjamin Quillian	Vice President for Administration
Steven Katz	University Controller
Cheryl Burger	Accounting Technician
Rick Finden	Parking Administrator
Dutch Green	Director, Procurement and Support Services
Larry Haugen	Administrator, Student Health Services
John Hernandez	Property Clerk
Linda Huizar	Senior Accounting Clerk
Ayesha Khan	Accounting Technician
John Klein	Manager, Student Accounts
Patrica Lavinga	Circulation Librarian
Dennis Livezey	Manager, General Accounting
Janice Loo	Manager, Special Projects
Margaret Martinez	Accounting Technician
James Morris	Associate Vice President, Information Systems and Technology
Josephine Ramirez	Manager, Student Financial Services
Jeannine Raymond	Director, Human Resources
Kathy Ross-Urata	Information Technology Consultant
Alberta Trytten	Manager, Business Systems
Susan Vaquilar	Manager, Payroll
Robert Vega	Director, Accounting Services
Patricia Work	Manager, Accounts Payable, Trust Accounts and Receivables

**APPENDIX B**  
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**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.

**FISMA**  
**CALIFORNIA STATE UNIVERSITY,**  
**FRESNO**

**Report Number 97-04**  
**September 9, 1997**

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