

FISMA
CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO

Report Number 97-10
March 11, 1998

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 Alice C. Petrossian
Stanley T. Wang

Staff

University Auditor: Larry Mandel
Senior Director: Norman Buettner
Staff Auditor: Rita Papadakis

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

INTRODUCTION

Purpose.....	1
Scope and Methodology.....	1
Background	3
Opinion.....	3
Executive Summary.....	4

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Accounts Receivable	5
Fixed Assets.....	6
Reconciliations	6
Physical Inventory	7
Reports Of Lost Or Stolen Property	7

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
CSUSB	California State University San Bernardino
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State 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 1996-97 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 April to September 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 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 the CSU San Bernardino from November 3, 1997 through January 9, 1998 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.

ACCOUNTS RECEIVABLE [5]

The campus was not pursuing all options in resolving delinquent accounts receivable. Pursuing all available options in the collection of delinquent receivables will both reduce the potential loss of revenues and present a more accurate picture of the campus accounts receivable.

FIXED ASSETS

RECONCILIATIONS [6]

The campus did not complete timely reconciliations between property records and the general ledger property accounts. This is a repeat finding from our prior FISMA audit. Timely reconciliations reduce the risk of errors and irregularities going undetected for extended periods of time.

PHYSICAL INVENTORY [7]

The campus had not taken a complete physical inventory and reconciled it to accounting records in the past three years. This is a repeat finding from our two prior FISMA audits. Periodic inventories reduce the exposure to loss/misuse of fixed assets.

REPORTS OF LOST OR STOLEN PROPERTY [7]

Existing procedures did not ensure removal of all lost or stolen property from the property inventory. Establishing procedures for timely removal of all lost or stolen property from the property inventory decreases the risk of overstated property and general fixed asset accounts.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

ACCOUNTS RECEIVABLE

The campus was not pursuing all options in resolving delinquent accounts receivable.

Collection efforts did not include the use of the tax-offset program (for student receivables) and local write-off and relief from accountability methods (for non-student receivables), although some accounts were deemed uncollectible. Furthermore, the campus' accounts receivable system did not age receivables in a format that allowed for easy identification of delinquent accounts.

SUAM § 3822 requires each campus to establish procedures that provide for prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls, utilization of the offset claim procedures for accounts greater than \$10, in accordance with SAM § 8790, and withholding of services such as library loans, transcripts, grade reports, future enrollments, etc.

Executive Order 616, dated 4/19/94, delegated authority to the campuses to discharge from accountability debts of \$1,000 or less that are determined to be uncollectible or where the amount does not justify the collection costs. The executive order emphasizes that the campuses are still obligated to comply with the collection efforts outlined in SAM §8776.6, which states that departments may request from the State Board of Control, relief from accountability for uncollectible amounts in excess of \$1,000.

The accounting director stated that the Chancellor's Office verbally informed him that the state does not mandate the campus to use tax offset. Write-offs and relief from accountability were not used, as the accounting director opted to apply other methods to reduce outstanding receivables.

Not pursuing all available options in the collection of delinquent receivables will increase the potential loss of revenues and result in an inaccurate picture of the campus accounts receivable.

Recommendation 1

We recommend that the campus take the appropriate action to write off uncollectible accounts and adjust procedures to assure that collection efforts include prompt follow-up and use of all available options.

Campus Response

We agree to establish procedures for writing off non-student receivables, including aging receivables that would allow for identification of delinquent accounts. However, we believe our current process for collecting outstanding student receivables is adequate and that the use of tax offsets is not economical.

The University used the tax offset program for ten years with minimal success. Based on our study, the cost to continue this program exceeded the amount of collections. CSUSB currently has an alternate program for reducing/collecting student debts which satisfies State Administrative Manual requirements. This program has the following components: 1) Requiring students to prepay fees during late registration; 2) Denying students registration and transcripts until balances are paid in full; 3) Creating a full-time position to pursue collections; and 4) Assigning bad debts to collection agencies. Three years ago when the University used the tax offset program, the amount of outstanding student receivables was \$432,000. As a result of using other initiatives to reduce receivables, the outstanding balance has been reduced to \$68,441. This figure represents 0.3% of the total revenue received from students and is an 84% improvement compared to the tax offset program. The finding also addresses the requirement in Executive Order 616 and SAM section 8776.6 to discharge from accountability debts. This University meets the intention of both requirements through the establishment of a reserve for uncollectible accounts which complies with Generally Accepted Accounting Principles.

FIXED ASSETS

RECONCILIATIONS

The campus did not complete timely reconciliations between property records and the general ledger property accounts. This is a repeat finding of our prior FISMA audit.

SAM § 7969 requires that, at the end of each month or each quarter, agencies will reconcile the equipment expenditures from the current year's state operations appropriations with accretions of major property to the property ledger.

The property coordinator indicated that he completed a final reconciliation for FY96/97, but he had not developed a procedure for performing a monthly reconciliation of expenditures to the property record. The accounting director believes that an annual reconciliation suffices.

Not completing property reconciliations in a timely manner increases the risk of errors and irregularities going undetected for extended periods of time.

Recommendation 2

We recommend that the campus prepare a reconciliation of expenditures with property records in a timely manner.

Campus Response

The University has established procedures to perform quarterly reconciliations. However, we would like to point out that Generally Accepted Accounting Principles allow for an annual reconciliation of fixed assets at the end of the fiscal year. Our latest fixed asset reconciliation was reviewed by KPMG Peat Marwick LLP and was found to be in compliance with general accounting requirements.

PHYSICAL INVENTORY

Physical inventories were not completed and reconciled with the accounting records. This is a repeat finding of our two prior FISMA audits.

SAM § 8652 requires a physical count of all property and a reconciliation of the count to accounting records at least once every three years.

The property coordinator stated he had attempted to inventory all scheduled departments and subsequently reconcile them to the accounting records. However, other priorities took precedence.

Failure to take a physical inventory increases campus exposure to loss/misuse of fixed assets.

Recommendation 3

We recommend that the campus complete a physical inventory and reconcile it to the accounting records.

Campus Response

Physical inventories will be completed for all units by this summer. Results from these inventories will be reconciled with Accounting reports.

REPORTS OF LOST OR STOLEN PROPERTY

Existing procedures did not ensure removal of all lost or stolen property from the property inventory.

The property coordinator provided us with five Property Survey Reports of items that he surveyed as lost or stolen during 1996. However, he could not confirm that this represented all campus lost or stolen property for that period. This resulted from a lack of formal procedures to track, monitor, and communicate lost or stolen property information to the property coordinator, on a regular basis.

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

The public safety lieutenant indicated that the campus is in need of specific directions as to how to establish and implement procedures to ensure all lost or stolen property is appropriately and timely communicated to the property coordinator.

Failure to establish procedures for timely removal of lost or stolen property from the property inventory increases the risk of overstated property and general fixed asset accounts.

Recommendation 4

We recommend that the public safety department improve procedures to track, monitor, and timely communicate to the property coordinator all campus property reported as lost or stolen.

Campus Response

The University has implemented procedures to track and report lost or stolen property. When lost or stolen property is reported to Public Safety, that information will be forwarded to the Property clerk within seven days. If any property is recovered, a similar report will be issued. For reconciliation purposes, Public Safety will maintain/update the list of lost or stolen property on campus.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Ammerman, Paula	Accounting Tech II
Anderson, Daryl	Accounting Director
Arredondo, Michael	Receiving Manager
Bickman, Sheila	Manager, Computer Operations
Bolowich, Suzanne	Assistant Accounting Director
Brooks, Janet	Front Counter (Admissions & Records)
Clenna, Arlene	Incoming Transcripts
Cowley, Sharon	Clerical Assistant IV
DeMauro, David	Vice President for Administration and Finance
Endeman, Mike	Accountant
Erickson, Tami	Outgoing Transcripts
Farber, Neal	Pharmacist-In-Charge
Frost, Lorraine	Associate Director, Administrative Computing Services
Gaither, Marlene	Accounting Tech I
Harden, Jessica	Student Services Professional
Kelley, Shannon	A/P Supervisor
Lemmond, Janice	Procurement and Support Services Officer
Marcelino, Kathy	Administrative Operations Analyst
McCarrell, Kathy	Bursar Supervisor
McCarron, Cecilia	Health Services Assistant
Monahan, Jerry	Property Coordinator
Moyeda, Murillo Carmen	Administrative Operations Analyst
Nowicki, Stephen	Public Safety Lieutenant
Ortega, Lydia	Director Admissions & Records
Owen, Patricia	Supervisor Registration
Parrish, Anthony	Student Accounts Supervisor
Shepard, Kathy	Purchasing Manager
Stanton, Beth	Purchasing Buyer
Takehara, Bill	Associate VP Financial Operations, Budget
Tassin, Pegeen	Payroll Supervisor
Walker, Lori	Billings Supervisor
Wright, Sharon	Accounting Tech II
Wellington, Martin Juanita	Accounting Technician Travel

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.