

FISMA
CALIFORNIA STATE UNIVERSITY,
BAKERSFIELD

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ABBREVIATIONS

| | |
|-------|--|
| CSU | California State University |
| CSUB | California State University, Bakersfield |
| FISMA | Financial Integrity and State Manager's Accountability Act |
| SAM | State Administrative Manual |
| SHC | Student Health Center |
| SUAM | State University Administrative Manual |
| VTS | Value Transfer System |

INTRODUCTION

PURPOSE

The principal objective of this audit was to assess the adequacy of controls and systems to ensure that:

- ▶ cash receipts are processed in accordance with laws, regulations and management policy;
- ▶ receivables are promptly recognized and balances are periodically evaluated;
- ▶ purchases are made in accordance with laws, regulations and management policy;
- ▶ revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policy;
- ▶ cash disbursements are properly authorized and 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 access to payroll/personnel records and processing areas are restricted;
- ▶ purchase and disposition of fixed assets are controlled and assets are promptly recorded 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, fiscal year 1996-97 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 June through December. Our primary focus was internal controls, and 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
- ▶ establishment of trust funds, separate accounting, adequate agreements, and annual budget.

We have not performed additional auditing procedures beyond the date of this 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 make recommendations in areas requiring 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 conducted these reviews. However, due to staffing reductions, they no longer conduct such audits. The Office of the University Auditor of the CSU is currently 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 Bakersfield campus 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 remain undetected. In addition, projection of any evaluation of systems to future periods is subject to risk, inasmuch as 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*.)

With the exception of the items noted in the Executive Summary and in the detail of the report, controls were in place and functioning adequately and compliance with related CSU and campus policies and procedures were satisfactory.

EXECUTIVE SUMMARY

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

CASH RECEIPTS

SATELLITE CASHIERING [6]

Internal control weaknesses were observed at selected satellite cashiering areas. Adequate accounting and control of cash collections and deposits decreases the risk that misappropriation of funds may go undetected.

UNCLEARED COLLECTIONS ACCOUNTS [9]

Uncleared collections were not researched and cleared in a timely manner. Timely processing of uncleared collections reduces the risk of understated revenues and reimbursements or overstated expenditures and a loss of interest on special funds.

PURCHASING [9]

The campus open purchase order report did not correctly reflect outstanding items for follow-up by accounting and procurement. Timely identification and resolution of delivery delays and lost orders will be possible when controls over outstanding purchase orders are adequate.

CASH DISBURSEMENTS [10]

Long outstanding checks available for deposit into the Special Deposit Fund were not deposited in a timely manner. The timely cancellation or remittance of long outstanding checks to the Special Deposit Fund prevents reversions to the general fund and reduces the amount of time and effort required to review outstanding checks during the reconciliation process.

FIXED ASSETS [11]

Fixed assets were not adequately controlled. Effective inventory and reconciliation procedures provide the campus with assurance that its fixed assets are properly controlled and accurately stated in the financial records.

FISCAL INFORMATION TECHNOLOGY [12]

Backups of the mainframe computer and data communication servers were not stored in a secure, remote location off campus. In the event of a disaster, offsite backups prevent transactions entered into and processed by the mainframe computer from being permanently lost. Such an arrangement may also help to avoid the necessity to devote a significant amount of time and effort in recreating lost files.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Internal control weaknesses were observed at selected satellite cashiering areas.

Three satellite cashiering areas (student health center, housing and parking administration) were selected due to the scope of their operations. In addition, we considered aspects of cash controls for the library and the campus value transfer system in response to concerns raised by campus personnel during our audit fieldwork.

Student Health Center (SHC)

Controls over cashiering operations at the (SHC) were deficient. Specifically, we found that:

- access to cash receipts was not adequately controlled, i.e. three or more persons had access to the cash drawer and logged in under the same user password;
- overages and shortages were not accounted for properly;
- receipts were not reconciled daily to sales totals;
- cash collections were not always deposited in a timely manner.

SAM §8020 through §8022 requires, in part, that:

- a separate series of transfer receipts be used to localize accountability for cash or negotiable instruments to a specific employee from the time of its receipt to the time of its deposit.
- deposit information be recorded in a manner whereby it can be readily audited.

SAM §8030.1 requires that organizations accumulate collections until they total \$500 in cash or \$5,000 in cash, checks, money orders, and warrants, whichever occurs first, except that accumulated collections totaling \$50 or more will not remain undeposited for more than five working days and no collection will remain undeposited for more than fifteen working days.

The health services assistant responsible for SHC cash receipts indicated that the cashiering function is a shared duty among staff who have other primary duties. She further stated that the SHC had recently changed cashiering systems and internal controls were in the process of being developed. Regarding deposits, the health services assistant responsible for cashiering indicated that, as a result of the change in cashiering systems, deposits were made with regularity. However, they were not made with the regularity required by campus polices and procedures and the SAM.

Parking Administration

Parking administration's control of daily parking permit receipts was inadequate. Weaknesses identified included:

- daily parking permit sales per dispenser meter was not reconciled to actual collections and tickets used for each dispenser;
- unused permit ticket rolls were not adequately controlled;
- access to cash and permit tickets within dispensers was not sufficiently limited or otherwise controlled.

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

SAM §8020, §8021, and §8022 require, as noted above, localized accountability for cash and an adequate audit trail for deposit information.

The assistant vice president, fiscal and support services stated that the responsibility for parking administration was transferred to fiscal and support services during the 1997-98 fiscal year. The distribution of parking permits into the machines was retained by public safety and it was an oversight that the control of this operation was not reviewed by the fiscal division.

Library

The library inappropriately deposited some library fees to auxiliary accounts instead of state accounts. These fees were combined with other fees appropriately deposited into auxiliary accounts, and the precise amount attributable to the state could not be immediately established. Charges incorrectly posted included:

- inter-library book exchange fees;
- community user library card fees.

SAM §20003 states, as noted in detail above, that a system should be established to provide effective control over revenues.

The circulation services manager for the library stated that library staff did not fully understand the nature of these fees and their proper disposition. The accounting officer indicated that amounts involved appeared minor in relation to overall library revenues attributable to the state, and that further analysis of the process to collect and deposit fees was needed to determine the precise amounts.

Value Transfer System (VTS)

The campus did not have a completed written policy and procedures for its newly installed VTS card system.

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

The assistant vice president, fiscal and support services, indicated that efforts had been taken toward developing policies and procedures; however, they had not been fully documented, as the VTS had only been operational for less than three months at the time of audit.

Transfer of Accountability

Signed transfers of accountability for cash and checks between satellite cashiering locations and main cashiering were not made.

SAM §8020 and §8021, as noted above, require transfer accountability.

The accounting officer indicated that documented transfers of accountability were not done because satellite cashiering locations had been unreceptive to additional control requirements that were placed upon them.

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 address the following satellite location internal control weaknesses:

- a) student health center cashiering operations;
- b) control of daily parking permit receipts;
- c) library deposit and posting of fees;
- d) documentation of policy and procedures for the VTS card system; and
- e) transfer of cash and checks to main cashiering.

Campus Response

The campus has established written procedures for the handling of cash at approved satellite locations. The campus has designated appropriate personnel to visit with each of the locations discussed in the audit to ensure the procedures are completely understood and implemented.

UNCLEARED COLLECTIONS

Uncleared collections were not researched and cleared in a timely manner. Campus accounting reports did not indicate the makeup of the uncleared account balances or the age of the uncleared accounts.

SAM §10452 indicates, in part, that this account shows: the amount of cash collections being checked to determine if they are to be accepted for a fund in the State Treasury or are to be refunded to payers; and a representation of the types of reimbursements that must be applied at the time they are ordered into the State Treasury.

The accounting manager stated that the current accounting application did not produce reports detailing uncleared items. The system consolidates old outstanding items as a carry-forward total only and does not list individual transactions.

Uncleared collections not processed in a timely manner result in understated revenues and reimbursements or overstated expenditures and can result in a loss of interest to special funds.

Recommendation 2

We recommend that that the campus research and clear uncleared collections in a timely manner.

Campus Response

The campus currently uses the Banner student system which has no reports available to facilitate a reconciliation of the detail of this account. We have now remitted the beginning balance to the State Controller and are focused on developing a reconciliation program. We are reviewing similar reconciliation programs used in other parts of the campus to see if they can be easily adapted to our needs. If not, we will contact other Banner campuses to combine our efforts for developing a program to facilitate the monthly reconciliation. We anticipate this problem can be resolved by June, 1998.

PURCHASING

The campus open purchase order report did not correctly reflect outstanding items for follow-up by accounting and procurement. The report contains numerous entries that were erroneously included at the time the new purchasing computer application was installed.

SAM § 8422.20 requires follow up on outstanding purchase documents/contracts to determine whether all goods and services ordered are actually received.

The assistant director of procurement indicated that manually prepared purchase orders that had already been executed and completed were entered into the new computer system in error.

When controls over outstanding purchase orders are inadequate, delivery delays and lost orders will not be identified and resolved in a timely manner.

Recommendation 3

We recommend that the campus open purchase order report be corrected to appropriately reflect outstanding items.

Campus Response

The campus Accounting and Purchasing Departments are currently working on the cleanup of the open purchase order report. The report has data from the first year of implementation when the system was not fully operational. It is anticipated the cleanup procedure will be completed by May, 1998. Thereafter, the open purchase order will be run each month and the buyers and accounting technicians will be responsible for ensuring outstanding Purchase Orders are removed from the report in a timely manner.

CASH DISBURSEMENTS

Long outstanding checks available for deposit into the Special Deposit Fund were not deposited in a timely manner. The campus held 29 checks, totaling \$11,979, which should have been remitted as of October 1997.

SAM §8042 states that whenever general cash and revolving fund checks are outstanding over two years, they will be cancelled and the amount of such checks will be remitted to the Special Deposit Fund as unclaimed moneys.

The accounting officer indicated that deposits were not made in a timely manner due to both staffing turnover and shortages.

Failure to cancel or remit long outstanding checks to the Special Deposit Fund in a timely manner could result in reversion to the general fund and/or require additional efforts in reviewing outstanding checks during the reconciliation process.

Recommendation 4

We recommend that the campus assure that long outstanding checks available for deposit into the Special Deposit Fund are deposited in a timely manner.

Campus Response

All checks over two years old have now been remitted to the Special Deposit Fund. Checks held for pickup by the Accounting Office will be reviewed on a quarterly basis and remitted to the Special Deposit Fund as required.

FIXED ASSETS

Fixed assets were not adequately controlled.

We found that the campus:

- had not taken a complete physical inventory and reconciled it to accounting records in the past three years.
- had not performed quarterly reconciliations of property records to the general ledger.
- did not appropriately survey asset deletions. as an active survey board was not in place.

SAM §8652 requires that, at least once every three years, departments will take a physical inventory of all property and reconcile the count with the accounting records.

Pursuant to SAM §7969 , if the volume of property transactions is small, agencies will reconcile the equipment expenditures from the general ledger to the property records at the end of each month or quarter.

SAM §3520.2 indicates that each agency will have a duly appointed Property Survey Board responsible for determining whether the best interest of the state is served in disposing of state property. To the extent possible, there will be a sufficient number of members on the board to ensure that both business management and program responsibilities will be represented. At least two members of the Property Survey Board will approve all Property Survey Reports and any Transfers of Location of Equipment.

The vice president of business and administrative services indicated that the campus appointed a property clerk in April, 1997. In addition, an asset tracking bar coding system was purchased in November of 1997. The campus contracted with the system vendor to do the conversion and was in the process of taking inventory during our visit in November of 1997. These actions indicate that the campus recognizes the seriousness of this issue and is taking steps toward insuring adequate control of their fixed assets.

Ineffective property inventory and reconciliation procedures do not provide the campus assurance that its fixed assets are properly controlled or accurately stated in the financial records.

Recommendation 5

We recommend that the campus assure that fixed assets be adequately controlled, including:

- a) a complete and timely physical inventory reconciled to accounting records;
- b) quarterly reconciliations of property records to the general ledger.
- c) an appropriately implemented property survey process.

Campus Response

The campus purchased the Asset Track Bar Coding System in November of 1997 and hired the system vendor to take a complete physical inventory and do the system conversion. To date, there have been many problems with the vendors data, but the campus and vendor are working on the inventory data and anticipate this will be resolved by June, 1998. The campus Property Department is currently working with the individual departments to locate as much property as possible before year end. The Property Survey Board has been re-established and had it's first meeting in January, 1998. The Accounting Department is working closely with the property department and will perform a complete reconciliation between the physical inventory and the accounting records as soon as the inventory is complete and accurate. The Accounting Department will then continue to reconcile the property records to the Accounting records every quarter.

FISCAL INFORMATION TECHNOLOGY

Backups of the mainframe computer and data communication server files were not stored in a secure, remote location off campus.

SAM §20003 requires, in part, that there should be record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The operating systems analyst indicated that the campus had not completed its evaluation of back-up needs.

In the event of a disaster, transactions entered into and processed by the mainframe computer could be permanently lost or require a significant cost in time and effort to recreate the data.

Recommendation 6

We recommend that the campus assure that backups of the mainframe computer and data communication servers are stored in a secure, remote location off campus.

Campus Response

On April 3, 1998, Computer and Telecommunication Services completed an agreement for “off site” data storage with Advanced Data Storage. This company is located in Bakersfield. Since Monday, April 20, 1998, a complete set of Computer Center, Library and Telecommunications data tapes are picked up and stored at their facility. The pick-up is weekly on Mondays.

APPENDIX A: PERSONNEL CONTACTED

| <u>Name</u> | <u>Title</u> |
|------------------------|---|
| Tomas Arciniega | President |
| Brian Baker | Interim Director, Public Safety |
| Marge Becas | Accounting Technician, Accounting Office |
| Jane Bedford | Accounting Manager, Accounting Office |
| Sharon Brown | Secretary, Personnel |
| Perry Eggleston | Sergeant, Public Safety |
| Al Esplinoza | Parking Officer, Public Safety |
| Robert Fallon | Director, Housing |
| Jeanne Furstenfeld | Secretary, Housing |
| Kellie Garcia | Director, Personnel |
| Gary Gleed | Accounting Officer |
| Vicki Johnson | Secretary, Accounting |
| Ron Langley | Director, Computer and Telecommunication Services |
| Cherrie Lane | Clerical Assistant, Accounting Office |
| Irene Leung | Assistant Director, Computer and Telecommunication Services |
| Olga Lopez | Secretary, Personnel |
| Melinda Manett-Jackson | Accounts Payable, Accounting Office |
| Janet Martin | Payroll Technician, Accounting Office |
| Vickie Melton | Circulation Services Manager, Library |
| Eileen Montoya | Secretary, Library |
| Mark Murie | Manager, Personnel |
| Michael Neal | Vice President, Business and Administrative Services |
| Linda Neel | Cashier, Accounting Office |
| Marilyn Scott | Health Services Assistant, Health Center |
| Karen Stotts | Accounting Technician, Accounting Office |
| Sharon Taylor | Assistant Vice President, Fiscal and Support Services |
| Julia Tingley | Accounts Receivable Technician, Accounting Office |
| Virginia Munoz | Accounts Payable Technician, Accounting Office |
| Michael Williams | Director, Procurement and Support Services |
| Tina Williams | Benefits Officer, Personnel |
| Frank Yap | Assistant. Director, Procurement and Support Services |
| Dennis Zajack | Operating Systems, Computer and Telecommunication Services |

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.