FISMA

CALIFORNIA STATE UNIVERSITY
SAN MARCOS

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

INTRODUCTION

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

APPENDICES

ABBREVIATIONS

ASI	Associated Students, Incorporated
CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
FRS	Financial Reporting System
SAM	State Administrative Manual
SCT	System Computer Technology
SCO	State Controller's Office
SUAM	State University Administrative Manual

INTRODUCTION

PURPOSE

The principal audit objective 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 personnel/payroll 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 July through October 1997. Our primary focus was on 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 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 any 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 state agencies to 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. The Office of the University Auditor of the CSU is responsible for conducting such audits within the CSU. This report represents our biennial review.

OPINION

We visited the CSU San Marcos campus from January 26, 1998, through March 13, 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.)

Our audit revealed conditions which, in our opinion, if not corrected could result in errors and irregularities. Specifically, the campus does not maintain adequate internal controls over cash receipts, accounts receivable, payroll/personnel, fixed assets and trust funds. Other areas needing improvement are listed in the Executive Summary.

EXECUTIVE SUMMARY

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

CASH RECEIPTS

DELAYS IN DEPOSITS [7]

Internal controls involving the deposit of cash receipts for the extended education department were not adequate. Timely deposits of cash receipts increases interest earnings and reduces campus exposure to loss from misappropriation of funds.

RECONCILIATION OF APPLICATION FEES [8]

For fall 1996, the campus did not complete a reconciliation of applications for admission to application fees in a timely manner. Timely preparation of accurate fee reconciliations reduces the risk of errors or misappropriation of fees going undetected.

FREQUENCY OF REMITTANCES [8]

Reports to the State Controller's Office (SCO) of remittances to the State Treasurer were not submitted in a timely manner. The timely submittal of remittances to the State Treasurer prevents the loss of interest earnings on revenue funds.

ACCOUNTS RECEIVABLE

TIMELY BILLINGS/REIMBURSEMENTS [9]

Campus billing procedures for reimbursement of services provided to auxiliary organizations and foundation project accounts were not adequate. This is a repeat finding from our prior FISMA audit. Identifying and collecting accounts receivable in a timely manner increases working capital and decreases the risk of lost revenues.

LIBRARY RECEIVABLES [10]

Library procedures for administering delinquent accounts receivable were not adequate. Maintaining adequate controls over accounts receivable collections increases working capital and decreases lost revenues.

PAYROLL RECEIVABLES [11]

Employee payroll receivables were not collected/discharged in a timely manner. Establishing procedures to properly manage and follow up on employee payroll receivables increases the probability that amounts owed will be collected, discharged or cleared.

REVOLVING FUND [13]

Revolving fund salary advances were not cleared in a timely manner. This is a repeat finding from our prior FISMA audit. Clearing outstanding salary advances in a timely manner makes resources available for other campus usage and limits the potential for loss of revenue from uncollectible accounts.

PAYROLL/PERSONNEL

OVERTIME APPROVAL [14]

A sample selection of overtime documents indicated that written pre-authorization of overtime did not always occur. Requiring written pre-authorization prior to granting overtime reduces the risk of unnecessary and/or unpaid workshifts.

EMPLOYEE CLEARANCE FORMS [15]

The campus clearance form did not include the requirement that employees return procurement cards prior to separation from employment. The risk of inappropriate purchases is reduced when this requirement is included on the clearance form.

FIXED ASSETS

USE OF PROPERTY OFF-CAMPUS [16]

Internal control procedures regarding the loaning of university property to campus employees for off campus use were not adequate. Obtaining appropriate authorization, approval and notification from the property office provides greater accountability and reduces the risk of theft.

PROPERTY SURVEY REPORTS [16]

Existing property disposal procedures were not adequate. Strengthening such procedures will reduce the risk of improper disposal of university property.

REMOVAL OF PROPERTY FROM INVENTORY [17]

Campus procedures regarding equipment removal from the property inventory were not adequate. Forwarding all reports of lost or stolen property to the property office and preparing property survey reports for property/equipment under $5,000 increases accountability of property and the accuracy of the property inventory general ledger fixed assets account.

TRUST FUNDS [19]

Documentation in support of trust project agreements and expenditures was not adequate. This is a repeat finding form our prior FISMA audit. Proper documentation of trust agreements and expenditures reduces the risk of inappropriate expenditures.

RECONCILIATIONS [20]

Documentation in support of the monthly bank, revolving fund, and property reconcilations was not adequate. The requirement that both preparer and supervisor review, sign and date the reconciliations not only reduces the potential for loss of assets, but it also decreases the risk that errors will go undetected

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

DELAYS IN DEPOSITS

Internal controls involving the deposit of cash receipts for the extended education department were not adequate.

Delays occurred in depositing application fee payments for the extended education services department. At the time of our review, cash receipts over four weeks old totaled $1,560 and remained unprocessed in the central cashier's office vault.

SAM §8030.1 requires cash collections in excess of $50.00 to be deposited within five working days and all other collections no later than fifteen working days.

The supervising cashier indicated that delays occurred because the registration and records office did not create new student records so that timely deposits could be made.

Inadequate controls of cash receipts increases the probability that funds will be misappropriated and interest earnings will be lost.

Recommendation 1

We recommend that the campus improve procedures to expedite the processing and deposit of daily cash receipts.

Campus Response

We agree with the recommendation, and note that the finding was limited to extended education receipts. Procedures are being reviewed with the Extended Studies and Enrollment Services staff for the timely creation and/or recording of extended education student enrollment information. These changes will be in place by December 1998. Additionally, the University Cashiers Office has revised its existing deposit procedures and has added the following steps for deposits to unidentified accounts: If accounts are not created at the time of deposit, the amounts are posted to the uncleared collections accounts and deposited to the bank the following day. Once the student records are established, the appropriate journal entries are then made to credit the correct accounts. Changes in Cashiers Office procedures are now in place.

RECONCILIATION OF APPLICATION FEES

For fall 1996, the campus did not complete a timely reconciliation of the applications for admission to application fees received.

SUAM §3825.01 requires that a reconciliation of applications for admission to fees received be completed one month after the end of the term being reconciled. This information must be maintained and kept on file by each campus.

The general ledger accountant indicated that the admissions and records office staff enter application fee information continuously into the Banner System database, and no end of term cut-off dates were established. Additionally, staff in the admissions and records and accounting offices had no follow-up discussions.

Not completing fee reconciliations in a timely manner allows for a possible theft to go undetected.

Recommendation 2

We recommend that the campus improve internal cut-off date procedures to ensure that reconciliations of applications for admission to application fees received are completed in a timely manner.

Campus Response

We agree with the recommendation. Fiscal Operations staff will work with Admissions & Records staff to set internal cut-off dates so that application for admission and admission fee reconciliations are completed within the required timeframes. This change will be in place by December 1998 so that 1998/9 reconciliations can be completed.

FREQUENCY OF REMITTANCES

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

A review of reporting timeliness for September 1997 through December 1997 indicated that remittance advice items were sent to the State Treasurer on September 10, 1997, October 7, 1997, October 29, 1997, and November 26, 1997. During our sample period, cash collections occasionally exceeded $100,000 and no reports were submitted to the SCO between November 27, 1998, and January 7, 1998.

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

The general ledger accountant indicated that staff turnover contributed to the delay in reporting remittances to the SCO.

Failure to report remittances in a timely manner results in lost interest income to special funds.

Recommendation 3

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

Campus Response

We agree with the accuracy of the finding, and note that there were extenuating circumstances for the period cited. Between November 27, 1997 and January 7, 1998, the period cited, the campus was converting and reconciling year-to-date financial data from FRS to the Banner Finance system for a mid-year conversion to a new financial system. During this conversion period, there were no remittances to the State Treasurer. Outside this conversion period, the University routinely meets the remittance and reporting requirement. Since the campus has completed the conversion process, we expect that the delay in reporting deposits will not recur. The campus is currently in compliance.

ACCOUNTS RECEIVABLE

TIMELY BILLINGS/REIMBURSEMENTS

Campus billing procedures for the reimbursement of services provided to auxiliary organizations and foundation project accounts were not adequate.

Associated Students, Inc. (ASI)
Although the ASI was formally established in 1994, a written agreement regarding reimbursement of utility services and space had not been finalized between the campus and the ASI.

CSUSM Foundation
The campus did not issue timely billings to foundation project accounts for services provided by the general fund. The accounting records indicated that no billings had been issued since March 1997. This is a repeat finding from our prior FISMA audit.

Title 5 §42501 of the California Education Code requires that a general written agreement covering a number of functions performed or a separate agreement of each function performed be made between the CSU and its auxiliary organizations.

SAM §8776.3 requires billings to be prepared and sent out as soon as possible after recognition of a claim.

SAM §8099 requires prompt reimbursement from grant funds when goods or services are provided.

The Office of the Chancellor also issued general systemwide policy and procedures, dated December 28, 1983, to the CSU campuses in coded memorandum BA 83-30, Policy on Chargeable Services to Self-Supporting Operations. This policy requires agreements on charges to be documented, maintained in accordance with stated system policy, and retained in the business office and available for audit.

The assistant vice president for administration indicated that ASI management had not approved a draft agreement issued by the campus. She also indicated that the implementation of the new automated operating system required the assignment of additional duties to the staff member who performed the foundation account billings.

Not collecting accounts receivable in a timely manner decreases working capital and increases the risk of lost revenues.

Recommendation 4

We recommend that the campus: (1) finalize an agreement with the ASI for the timely reimbursement of services provided by the general fund; and (2) adjust procedures to ensure that foundation project account billings are completed in a timely manner.

Campus Response

(Item #1) We agree with the recommendation. The ASI has been requested to finalize the draft operating agreement provided by the University. The agreement should be finalized as soon as possible, and at the latest by the end of the Fall semester, 1998.

(Item #2) We agree with the recommendation. The billings to the Foundation are current through June 1998. Additionally, the campus has formed a cross-functional team to assign duties and reduce steps needed in billings to other agencies. Improvements will be implemented by Fall 1998 to ensure that billings are kept current. The campus is current in billings, and expects to remain so on a semesterly basis.

LIBRARY RECEIVABLES

Library procedures for administering delinquent accounts receivable were not adequate.

The library did not maintain an aging schedule, the purpose of which is to determine the total amount owed the campus and the length of time individual accounts are outstanding. The library automated system database indicated that, as of March 1998, there were 208 outstanding accounts, which totaled $19,379. An undetermined number of these accounts were over a year old. In addition, procedures had not been established to transfer library uncollectible receivables to the campus accounting office.

SAM §8776.6 established procedures for the collection of outstanding accounts receivable. If all reasonable collection procedures do not result in payment, the campus may request relief from accountability of uncollectible amounts from the State Board of Control.

Executive Order 616 delegated authority to the campuses for local adjustments of up to $1,000.

The library supervisor indicated that, because staff had always been responsible for their own collections, the coordination of library receivables with the campus accounting office had not occurred.

Inadequate controls over accounts receivable collections decreases working capital and increases the risk of loss of revenue.

Recommendation 5

We recommend that the campus strengthen its existing library accounts receivable procedures to ensure that the accounting office receives both collections and transfer of uncollectible accounts in a timely manner.

Campus Response

We agree with the recommendation. The Library receivables for 1997/8 have been accrued. Discussions are underway with Library staff to modify their receivables system so that aging and collection procedures can be introduced. Operating procedures will be written and enforced by December 1998.

PAYROLL RECEIVABLES

Employee payroll receivables were not collected/discharged in a timely manner.

The campus was not pursuing all available options in resolving payroll receivables in a timely manner. A review of campus records indicated that, as of 10/97, outstanding payroll receivables totaled $21,721.71 of which $15,528.17 was over two years old as follows:

Table 1
Payroll Receivables
1997-98

Year	# of Items	Amount
1993-94	13	$9,711.69
1994-95	8	5,471.04
1995-96	2	345.44
1996-97	17	5,990.67
1997-98	3	202.87
Total	41	$21,721.71

A sample selection of twenty-one outstanding payroll accounts receivable disclosed that, for accounts over two years old, campus collection efforts did not include the timely use of the tax offset program, collection agencies, or the local adjustment and discharge from accountability methods.

SAM §3822 requires prompt follow-up of accounts receivable, including utilization of the offset claim procedures, for accounts greater than $10.

Executive Order 616, dated 4/19/94, delegated authority to the campuses for local adjustments to $1,000.

SAM §8776.6 outlines the criteria for use of collection agencies: if all reasonable collection procedures do not result in payment, requests may be made to the State Board of Control to seek relief from accountability for uncollectible amounts.

The assistant director of human resources indicated that a staff shortage in the payroll office prevented the department from performing the additional research required to clear the old outstanding items.

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

Recommendation 6

We recommend that the campus improve procedures for collecting unpaid accounts receivable and seeking relief from the State Board of Control for accounts declared uncollectible or over two years old.

Campus Response

We concur. The campus has discharged payroll receivables for amounts of $1,000 or less that had accumulated, and has also submitted to the State Board of Control accounts over two years old that have been declared uncollectible. The campus has now complied with the recommendation, and will continue to use both these processes to keep payroll receivables current.

REVOLVING FUND

Revolving fund salary advances were not cleared in a timely manner. This is a repeat finding from our prior FISMA audit.

Campus accounting records revealed that, as of 11/30/97, there were a total of thirty-six outstanding salary advances totaling $22,897.82. As listed below, twenty of these advances were dated back to 1993 and totaled $9,542.73.

Table 3
Outstanding Salary Advances
Over sixty days old
as of 11/30/97

Year	# of Items	Amount $
1993	1	500.00
1994	4	1,851.85
1995	0	0
1996	8	4,001.81
1997	7	3,189.07
Total	20	9,542.73

SUAM §3813 requires prompt clearance of salary advances through prompt employee reimbursements. In addition, SAM §8595 and SAM §877.6 require salary advances to be cleared through offset against subsequent payroll warrants.

The assistant director of human resources indicated that the payroll office was unable to perform the required research on some of the advances. She also indicated that the payroll staff's understanding of the SAM regulations was that, rather than obtaining the funds from employee salary warrants, a receivable should be established to clear the outstanding advances.

When outstanding advances are not cleared in a timely manner the effects are twofold: (1) resources are not available for other uses and; (2) there is an increased potential for loss of revenue from uncollectible accounts.

Recommendation 7

We recommend that the campus strengthen procedures to assure that salary advances are cleared in a timely manner.

Campus Response

The campus has cleared its outstanding salary advances for amounts of $1,000 or less, and continues to work toward clearing the remaining old salary advances. Old salary advances will be cleared by December 1998; current payroll revolving fund advances are now cleared regularly through subsequent payroll warrants.

PAYROLL/PERSONNEL

OVERTIME APPROVAL

A sample selection of overtime documents indicated that written pre-authorization of overtime did not always occur.

Five of the overtime payments in our 1996-97 sample selection of thirteen indicated that the actual overtime preceded the authorization. We noted that six other overtime authorization forms in this sample did not include an authorization/approval date and/or approval signature on the overtime request document.

SAM §8540 requires that, as a general practice, compensation for overtime either by cash payment or time off should be based upon prior written approval and signed by a designated supervisor.

The payroll technician indicated that this deficiency was due, in part, to a lack of staff training on completing the overtime request form.

When written pre-authorization of overtime is not provided, there is an increased risk of unnecessary and/or unpaid workshifts.

Recommendation 8

We recommend that the campus improve procedures to ensure that all overtime work is pre-authorized and properly approved. When it is not practical to do so, we recommend that an explanation of exceptions be completed on form (Std. 682*), Authorization for Extra Hours*.

Campus Response

We concur. To comply, HRM will remind department supervisors/managers to pre-approve overtime, and will provide training to department supervisors/managers as needed to ensure proper completion of overtime authorization forms. Reminders of overtime procedures to super-visors/managers will be sent in early Fall, 1998. Consistent non-compliance will be brought to the attention of the next higher management level until appropriate action is achieved.

EMPLOYEE CLEARANCE FORMS

The campus employee clearance forms did not include the requirement that employees return their procurement cards prior to separation.

A sample selection of twenty payroll/personnel transactions completed during 1996-97 included four separating employees, one of whom had been assigned a procurement card. However, the clearance form did not include a requirement to ensure that procurement cards were returned prior to separation. The director of human resources management indicated that this was an oversight, as staff had discussed including the procurement card information on the clearance form.

SAM §8580.4 requires that, prior to releasing the final warrant, separating employees must complete a clearance form, which includes information addressing the return of credit card items.

The risk that inappropriate/unauthorized purchases will be made exists when campus clearance forms do not include a review for the return of procurement cards by separating employees prior to delivering their final pay warrants.

Recommendation 9

We recommend that the campus strengthen controls to ensure that clearance forms contain a requirement to return procurement cards.

Campus Response

We concur. The procurement card has been added to the employee clearance form, and a quality service team is reviewing the clearance form and process for completeness. Campus policy and procedure now is current with the finding recommendation.

FIXED ASSETS

USE OF PROPERTY OFF-CAMPUS

Internal control procedures regarding the loaning of university property to campus employees for off-campus use were not adequate.

A site visit to various campus department locations to follow-up on a sample selection of twenty-three acquisitions during 1996-97 disclosed that seven of the twenty-three property items were loaned to staff for off-campus use without first receiving proper authorization and approval.

The campus Property Policy and Procedures Manual requires approval from an authorized department designee prior to lending property to employees for off-campus use. A Property Action Request Form must first be processed through the campus property office.

The property clerk indicated that department staff did not provide the required documentation for taking university property items off-campus. Not providing the property office with proper authorization, approval and notification for off-campus use of property items increases the risk of theft and inadeqate accountability.

Recommendation 10

We recommend that, prior to loaning university property to campus staff for off-campus use, the campus strengthen internal control procedures to ensure that the property office receives proper authorization, approval and notification.

Campus Response

We concur. Campus managers and staff will be reminded in early Fall, 1998, of established internal control procedures regarding the use of university equipment off-campus. Instances of non-compliance will be brought to the attention of the next higher management level until appropriate action is achieved.

PROPERTY SURVEY REPORTS

Existing property disposal procedures were not adequate.

A review of the ten most recent Property Survey Reports (Std. 152) disclosed that four of the survey documents contained items from the computing services department. In three of the four cases, the department did not submit a Request for Property Survey Report form to the property office.

The campus Property Policy & Procedures Manual requires all departments to submit a Request for Property Survey Report to the property office. Upon receipt of these forms, the property office picks up the equipment from the department, and the completed form is forwarded to the property survey board for action.

The property clerk indicated that computing services did not consistently follow established campus policy.

Property survey reports that are not properly authorized reduce accountability over disposal of state property.

Recommendation 11

We recommend that the campus strengthen internal controls to ensure compliance with established property survey report procedures.

Campus Response

We concur with the finding, and note that it pertains to survey documents from a particular department. The property clerk and Computing & Telecommunications staff will work together to ensure that the established procedures as stated in the campus Policy & Procedure Manual are clearly understood and followed. Unless a Property Survey Report is received by the property office prior to a request for pick up of equipment, the request will be denied. The implementation of the new procedure on receipt of Property Survey Report now brings the campus in compliance with the audit recommendation.

REMOVAL OF PROPERTY FROM INVENTORY

Campus procedures regarding equipment removal from the property inventory were not adequate.

The property office did not receive regular reports from the public safety department regarding lost or stolen property and equipment items. Property survey reports were not completed for property survey board review for property/equipment items under $5000

Public safety crime statistics from 1996-97 indicated that nineteen items, valued at $7,064.57, were stolen. However, property office records indicated that notification was given on only eight stolen items, with a total value of $4,535. Four of these eight items, valued at $4,110, were properly surveyed. Property survey reports were not completed for the remaining four items totaling $425.

SAM §8643 requires that a Property Survey Report be completed and maintained and an adjustment of the property records must be made whenever property items are lost, stolen or destroyed. Executive Order 649, dated February 15, 1996, requires all state assets with a unit acquisition cost of at least $5,000 and sensitive assets with a unit acquisition cost of $500 or more to be tagged and capitalized. In addition, SAM §3520.2 requires the property survey board to determine that the best interest of the state is served when disposing of state assets.

The property clerk stated that public safety and other campus departments did not always follow campus policy by forwarding the crime and incident reports attached to the Request for Property Survey forms. He also indicated that the campus determined that property/equipment items under $5,000 were no longer defined as property and, when these items were declared as surplus, it was not necessary to submit them for property survey board review. The property clerk also tracks equipment items under $5,000 while they are in use at the campus. However, once departments declare items as surplus, the property survey board does not want to be involved in the disposal of these items.

Not submitting property survey reports to the property office may result in lost or stolen property not being removed from the inventory. This results in an inflated inventory. When approval authority to dispose of property items is provided to a sole individual independent of formal property survey board action, the objectivity of the disposal decision is impaired and assurances that the best interest of the state is being served are not provided.

Recommendation 12

We recommend that the campus ensure that: (1) public safety forward crime reports to the property office in a timely manner; and (2) the disposition of all state property is determined by the property survey board.

Campus Response

We concur with item #1, and will follow a revised procedure on item #2.

(Item #1) The property clerk and public safety staff will work together to ensure the crime reports are submitted to the property office in a timely manner. Public Safety will be requested to immediately begin reporting thefts of campus property to the property office.

(Item #2) The campus routinely disposes of property valued at or above $5,000 (i.e., capitalized assets) only after review and approval of the Property Survey Board. Additionally, the campus agrees that the disposition of property of less than $5,000 requires the review and approval of management. The campus will amend its property disposal policy and procedures to require the manager responsible for the Property Office to review and approve requests to dispose of property of less than $5,000. The Property Survey Board will continue to be the responsible party for reviewing and approving the disposal of property of $5,000 or more. This new procedure will be implemented in early Fall, 1998.

TRUST FUNDS

Documentation in support of trust project agreements and expenditures was not adequate. This is a repeat finding form our prior FISMA audit.

We found that:

- A sample review of trust agreements indicated that the trust form did not contain instructions for closing the account;
- Five of the ten agreements reviewed had not been updated to include the names and signatures of current individuals authorized to expend funds and/or complete all required information listed on the agreement form and;
- Business office staff members who were not authorized signatories on the trust agreements approved eight of twenty related expenditure items selected for review.

SAM §19440.1 requires that supporting documentation for each trust account include persons authorized to withdraw or expend funds and instructions be provided for closing the account.

The assistant vice president of administration indicated that some trust administrative procedures were given low priority due to the implementation of the new SCT Banner operating system.

Not ensuring that trust agreements are complete and current and expenditures are properly supported increases the risk of loss or misuse of trust funds.

Recommendation 13

We recommend that the campus:

a) take corrective action required to ensure that trust fund agreements contain all required supporting documentation; and

b) accept only authorized signatures for expenditure of trust funds.

Campus Response

We concur. The Budget Office has begun the process of updating all cash trust agreements to ensure trust fund manager signatures and other supporting documentation are current. The updating process will be completed in Fall, 1998. The updated signature cards will be provided to appropriate operational units in Administrative Services, and the requirement to accept only authorized signatures for expenditure of trust funds will be enforced. New signature cards will be on file as soon as possible, and by December 1998 at the latest.

RECONCILIATIONS

Documentation in support of the monthly bank, revolving fund, and property reconcilations was not adequate: reconciliations were not signed and dated by the preparer and reviewer.

SAM §7908 requires that all reconciliations be signed and dated by both preparer and reviewer.

The director of fiscal operations indicated that, due to staffing changes, this deficiency was an oversight.

When formal reconciliations are not properly reviewed, errors and loss of assets may remain undetected.

Recommendation 14

We recommend that the campus ensure that procedures allow for the timely review of all formal reconciliations.

Campus Response

We agree with the recommendation. Procedures have been implemented to insure that monthly bank, revolving fund, and property reconciliations are signed and dated in a timely manner by the preparer and the reviewer. The campus is now in compliance.

APPENDIX A:
PERSONNEL CONTACTED

Name	Title
Alexander Gonzalez	Interim President
Janice Bronson	Admissions Specialist
Cecelia Boze	General Ledger Accountant
James Carr	Property Clerk
Carla Charlow	Supervisor, Accounts Payable
Deborah Coronado	Assistant Director, Human Resources
Barbara Dovenbarger	Director, Fiscal Operations
Lee Edmonson	Supervisor, Purchasing/Projects
Susan Gary	Payroll Technician
Suzanne Green	Assistant Vice President, Administration
Ken Guerrero	Assistant Director, Student Financial Services
Linda Hawkins	Director, Purchasing and Contract Services
Rosemary Henk	Accounting Technician
Randy Helfond	Supervisor, General Ledger Accounting
Dora Knoblock	Assistant to the Director, Parking Services
Peggy Lepere	Lead Library Assistant
Richard Loucks	Assistant Director, Fiscal Operations
Teresa Macklin	Director, Academic Computing Services
Teri Marquez	Accounting Technician
Norm Nicolson	Dean, Instructional and Information Technologies
Cathleen Rank	Budget Analyst
Sandy Shepard	Admin. Assistant to the Director, Fiscal Operations
Judy Taylor	Director, Human Resources
Paul Tiglao	Supervisor, University Cashier
Wayne Veres	Director, System Development/Software/Engineering
Ernest Zomalt	Executive Vice President

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.