

FISMA

**CALIFORNIA STATE UNIVERSITY
HAYWARD**

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**BOARD OF TRUSTEES
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ABBREVIATIONS

CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
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 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 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 require annualized data, the 1997-98 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 through December 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 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 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 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. The Office of the University Auditor of the CSU is 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 Hayward campus from February 2, 1998, through March 26, 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, 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 disclosed certain conditions which, in our opinion, if not corrected would result in errors and irregularities. Specifically, the campus does not maintain adequate internal control over cash remittances. Other areas requiring 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 [6]

Internal controls at the library circulation desk were inadequate. Adequately controlling cash receipts reduces campus exposure to loss from inappropriate acts.

REMITTANCES [7]

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

ACCOUNTS RECEIVABLE [7]

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

PURCHASING [8]

Purchase orders in excess of individual buyers signature authority were authorized by these buyers. Enforcing approved levels of individual buyer purchasing authority reduces the risk of unauthorized purchases.

REVOLVING FUND

TRAVEL ADVANCES [9]

Travel advances were not cleared in a timely manner. The timely clearance of outstanding travel advances makes resources available for other campus usage.

CHANGE FUNDS [10]

Counts of change funds were not occurring as frequently as required. The periodic counting of change funds assures that university assets are safeguarded and internal control is not compromised.

CASH DISBURSEMENTS

BANK RECONCILIATIONS [11]

Bank reconciliations were not prepared and reviewed in a timely manner. The potential for detecting errors and irregularities increases when bank reconciliations are prepared and reviewed in a timely manner.

LONG OUTSTANDING CHECKS [11]

Checks outstanding for a period in excess of two years were not canceled and remitted to the State Special Deposit Fund as unclaimed moneys. Canceling and remitting long outstanding checks to the Special Deposit Fund reduces both the possibility for misclassified amounts and the effort required to account for these outstanding items on reconciliations.

FIXED ASSETS [12]

Physical inventories were not reconciled with the accounting records. Performing periodic inventories reduces exposure to loss and/or misuse of fixed assets.

TRUST ACCOUNTS [13]

Trust project agreements did not contain all required supporting documentation. This is a repeat finding from our prior FISMA review. Adequately documenting trust agreements reduces the risk of inappropriate and untimely expenditures.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Internal controls at the library circulation desk were inadequate.

For example:

Transfer receipts were not used between the eight or more employees who, on any given day, had access to a single cash register.

Accountability for cash was not localized.

SAM § 8020 and § 8021 require, in part,

- a separate series of transfer receipts to be used to localize accountability for cash or negotiable instruments to a specific employee. This must occur from the time of receipt to the time of deposit;
- the establishment of localized accountability for cash.

According to the head of access services, a process for localizing accountability for library circulation cash receipts was given careful consideration. However, while attempting to achieve their mission to serve all users, the implementation of this process has not been made.

Inadequately controlling cash receipts increases the risk of fund misappropriation.

Recommendation 1

We recommend that the campus assure that appropriate internal controls are applied at the library circulation desk.

Campus Response

The library circulation desk will minimize access to cash and enhance internal controls and accountability.

Anticipated Completion Date: October 31, 1998

REMITTANCES

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

On December 31, 1997, the campus had a total of \$13 million that accumulated over a period of approximately nine months but was not credited to the agency's account. By completion of the audit fieldwork, the campus made progress in reducing this amount to approximately \$6 million.

SUAM § 3823 states that, while the general requirement for remittances to the Treasurer is at least monthly or when cash collections exceed \$100,000, this is not adequate for collections made in connection with the revenue funds. To augment the interest income earned by the Dormitory Revenue Fund (residence, parking, union accounts) remittances shall be made at least every other week or whenever collections exceed \$100,000.

The accounting manager stated that staff turnover and lack of formal training caused confusion and delays in making the remittances.

Failure to file reports in a timely manner results in lost interest income to special funds.

Recommendation 2

We recommend that remittance advices be submitted to the State Treasurer in a timely manner.

Campus Response

The backlog of remittance advices to the State Treasurer is now current and procedures have been updated to ensure future compliance. The bank reconciliations referred to in Recommendation 7 are the mechanism for reviewing compliance and these are now being done in a timely manner.

Anticipated completion Date: Complete

ACCOUNTS RECEIVABLE

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

Collection efforts did not include the use of 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 April 19, 1994, 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 Manager stated that, due to limited staffing and high turnover within the accounting area, write-offs and consistent follow-up procedures were not used.

Not pursuing all options in the collection of delinquent receivables increases the potential for loss of revenues and results in an inaccurate picture of accounts receivable.

Recommendation 3

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

Appropriate procedures will be implemented for the review, aging, collection, and management of accounts receivable and the write off of uncollectible accounts.

Anticipated Completion Date: October 31, 1998

PURCHASING

Purchase orders were authorized by buyers in excess of their signature authority.

Of the twenty purchase orders reviewed, three ranged from \$15,000 to \$72,000. Such purchases were made despite the fact that the buyers did not possess the signature authority to approve orders exceeding \$10,000.

SAM § 20003 requires a system of authorization, internal control and record keeping procedures that provide effective control over assets.

The purchasing manager stated that the buyers were aware of their signature authority levels as stipulated in a delegation of authority memo to the purchasing office. Management became aware of the non-compliance after the fact.

Not enforcing approved levels of individual buyer purchasing authority increases the risk of unauthorized purchases.

Recommendation 4

We recommend that the campus strengthen existing procedures to assure that buyers do not exceed their individual delegations.

Campus Response

Campus procedures have been established to segregate purchase orders exceeding \$10,000 and forward them to the Purchasing Manager for review.

Anticipated Completion Date: Complete

REVOLVING FUND

TRAVEL ADVANCES

Travel advances were not cleared in a timely manner.

A sample review of ten employees with at least one outstanding travel advance indicated that all were over 90 days old, and the oldest dated back one year.

SAM § 8116 requires prompt clearance of travel advances through the filing of claims or employee reimbursement.

The accounts receivable manager attributed the majority of delinquent advances to significant staff shortages and turnover. As a result, follow-up letters were not sent to employees.

When travel advances are not cleared in a timely manner, revolving fund monies are not available for other uses.

Recommendation 5

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

Campus Response

The responsibility for clearing travel advances has been reassigned to the Travel Coordinator. The backlog of uncleared travel advances is now current and travel advances are cleared in a timely manner.

Anticipated Completion Date: Complete

CHANGE FUNDS

Independent counts of change funds did not occur as frequently as required.

Eight of twenty existing change funds were not subject to various mandated cash counts during the last year. Independent counts for these eight funds required monthly and quarterly counts, however, such counts were completed semi-annually.

SAM § 8111.2 requires that an employee other than the custodian of the change or petty cash fund will count these monies in accordance with the following schedule:

<u>Size of Fund</u>	<u>Frequency of Count</u>
\$200.00 or less	Annually
\$200.01 to \$500.00	Quarterly
\$500.01 to \$2,500.00	Monthly

The accounting manager stated that funds were not counted due to changes in staffing and limited staffing.

Internal control of change funds is compromised when periodic independent cash counts are not performed.

Recommendation 6

We recommend that the campus ensure that independent cash counts of change funds occur within the applicable required frequencies.

Campus Response

Internal procedures have been implemented to ensure that independent cash counts occur within the applicable required frequencies.

Anticipated Completion Date: Complete

CASH DISBURSEMENTS

BANK RECONCILIATIONS

Bank reconciliations were not prepared and reviewed in a timely manner.

Our review of the four bank reconciliations for the period September through December 1997 disclosed that two were not reconciled for at least two months.

SAM §7900 states that all reconciliations will be prepared monthly within 30 days of the preceding month.

The accountant preparing the bank reconciliation stated that due to high turnover and limited staffing, the reconciliations were not prepared and reviewed timely.

The campus' ability to detect errors and irregularities decreases when bank reconciliations are not prepared and reviewed in a timely manner.

Recommendation 7

We recommend that the campus prepare and review monthly bank reconciliations.

Campus Response

The responsibility for preparing bank reconciliations has been reassigned to the General Accounting & Financial Reporting area and all bank reconciliations are now current.

Anticipated Completion Date: Complete

LONG OUTSTANDING CHECKS

Checks that were outstanding for a period in excess of two years were not canceled and remitted to the State Special Deposit Fund as unclaimed monies.

Checks outstanding for over two years amounted to approximately \$4,000.

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 manager indicated that, due to a staff shortage, undeliverable checks were not deposited timely.

Not canceling or remitting long outstanding checks timely to the Special Deposit Fund could result in reversion to the general fund and require additional effort to review outstanding checks during the reconciliation process.

Recommendation 8

We recommend that the campus cancel or remit long outstanding checks to the Special Deposit Fund in a timely manner.

Campus Response

The backlog of long outstanding checks have been canceled or remitted to the Special Deposit Fund and the responsibility for this function has been reassigned to the General Accounting & Financial Reporting area.

Anticipated Completion Date: Complete

FIXED ASSETS

Physical inventories were not reconciled with the accounting records.

The campus performed a complete inventory in 1995, however, the primary focus was to retag all equipment with bar-coded stickers. A reconciliation of the inventory to the accounting records was not completed.

SAM Section 8952 requires departments to take a physical count of all property and reconcile this count to the accounting records.

The property clerk stated that the reconciliation was not completed, as they were concerned with re-tagging assets—not reconciling equipment.

The campus cannot assure that university assets are controlled and properly stated in the financial records.

Recommendation 9

We recommend that the campus strengthen existing procedures to assure that inventories are reconciled to the accounting records.

Campus Response

We will adjust the current general ledger inventory balances for previous discrepancies resulting from

the physical inventory, implement a rotating schedule that follows established periodic inventory guidelines, and reconcile inventories to the accounting records.

Anticipated Completion Date: December 31, 1998

TRUST ACCOUNTS

Trust project accounts did not contain all the required supporting documentation. This is a repeat finding from our prior FISMA audit.

A sample of twelve trust fund accounts administered by the campus all lacked instructions for time constraints, reporting requirements, or fulfilling other internal administrative functions, including how excess funds should be disposed.

SAM 19440.1 states that each trust account established shall be supported by documentation, including instructions for closing each account and disposing of any unexpended balances in the accounts.

The accounting manager stated that, although the trust accounts contained the majority of required information, efforts to update and complete the files were not given priority. The campus, however, recently developed forms and procedures which will address all SAM requirements.

Inadequately documented trust agreements increases the risk of inappropriate or untimely disposition of funds.

Recommendation 10

We recommend that the campus take the corrective action required to assure that trust fund agreements contain the necessary supporting documentation.

Campus Response

New trust accounting procedures and forms have been developed. Accounting & Fiscal Services is in the process of updating all of these files with current supporting documentation.

Anticipated Completion Date: October 31, 1998

**APPENDIX A:
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Norma Rees	President
John Abbey	Accounting Manager
Noreen Alldredge	Director, University Library
Lee Bateman	Associate VP of Business Affairs
Yvonne Brandenburg	A/R Manager
Queenie Chen	Accountant
Paula Compton	A/P Manager
Wanda Davenport	Travel Technician
Diane Dolan	Head Cashier
Bonnie Guiomar	Payroll Officer
Mary Hootman	Accountant
Neal Hoss	Controller
Mark Marrow	Head of Access Services (Library)
Dick Metz	VP Administration and Business Affairs
Roy Nishimura	Head Pharmacist
Kathy Pitta	Property Clerk
Flora Salas	Administrative Operations Analyst
Eloise Thomas	Accounting Technician
Rick Thompson	Procurement Officer
Karen Turnbull	Clerical Assistant Supervisor
Paula Whistler	Purchasing Manager

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.