

FISMA

**CALIFORNIA STATE UNIVERSITY,
SAN MARCOS**

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ABBREVIATIONS

CSU	California State University
CSU San Marcos	California State University, San Marcos
DRP	Disaster Recovery Plan
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
FTB	Franchise Tax Board
HREO	Human Resources and Equal Opportunity
INS	Immigration and Naturalization Service
IITS	Instructional and Information Technology Services
IT	Information Technology
PFA	Plan of Financial Adjustment
ProCard	Procurement Card
SAM	State Administrative Manual
SUAM	State University Administrative Manual
TEC	Travel Expense Claim

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 policies.
- ▶ Receivables are promptly recognized and balances are periodically evaluated.
- ▶ Purchases are made in accordance with laws, regulations, and management policies.
- ▶ Revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies.
- ▶ 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 and 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.
- ▶ Trust funds are established in accordance with State University Administrative Manual 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 2000-2001 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 2001 to February 2002. Our primary focus was on internal controls. Specifically, we reviewed and tested:

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.

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- ▶ 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.
- ▶ Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

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. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

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 California State University (CSU) is currently responsible for conducting such audits within the CSU.

This report represents our biennial review.

OPINION

We visited the California State University, San Marcos (CSU San Marcos) campus from March 11, 2002, through May 10, 2002, and made a study and evaluation of the accounting and administrative control in effect as of May 10, 2002. Our study and evaluation were conducted in accordance with the *Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative.

CSU San Marcos management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code, Sections 13402 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative control are to provide management with reasonable, but not absolute, assurance that:

- ▶ Assets are safeguarded against loss from unauthorized use or disposition.
- ▶ Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- ▶ Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.

Our study and evaluation revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal controls over the following areas: accounts receivable, revolving fund, cash disbursements, and trust funds. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, except for the effect of the weaknesses described above, the CSU San Marcos accounting and administrative control in effect as of May 10, 2002, taken as a whole, was sufficient to meet the objectives stated above.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls change over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to: resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

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 [7]

The campus did not have a procedure to periodically request local banks to search for unauthorized bank accounts that use the campus name, address, and federal identification number. Establishing a process to periodically search for unauthorized bank accounts reduces the risk of liability associated with improper bank accounts.

ACCOUNTS RECEIVABLE [7]

RECORDING, COLLECTION, AND WRITE-OFF [7]

In certain instances, accounts receivable were not properly recorded, collection efforts were inadequate, late charges were not properly applied, and all available options in resolving delinquent accounts were not pursued. This is a repeat finding from our prior Financial Integrity and State Manager's Accountability Act (FISMA) audit. Adequate controls over account receivables improve reliability of financial data, increase the likelihood of collection, and positively impact cash flow.

AUXILIARY BILLINGS [10]

Billings to auxiliary organizations for services rendered were not always timely and properly supported. Presenting charges and collecting accounts receivables in a timely manner increase working capital and limit the potential loss of revenue to the state.

PURCHASING [10]

Campus procurement card controls did not ensure an adequate review of procurement card purchases and statements, appropriate supporting documentation, and adherence to transaction limits. Adequate procurement card controls reduce the risk of loss from inappropriate acts.

REVOLVING FUND [13]

TRAVEL ADVANCES AND EXPENSE CLAIMS [13]

Controls over travel advances and expense claims did not ensure adequate review. Adequate controls over travel advances and expense claims reduce the risk of loss of funds and inappropriate reimbursements.

CHANGE FUNDS [14]

Custody of change funds was not always properly documented. Adequate controls over change funds reduce the risk of loss of funds.

CASH DISBURSEMENTS [15]

DISBURSEMENTS [15]

Vendor data records were incomplete in certain instances, and invoices were not always promptly paid. Adequate controls over cash disbursements reduce the risk of penalties, fines, or interest charges and noncompliance with the *Prompt Payment Act*.

BANK RECONCILIATIONS [16]

Controls over bank reconciliations did not ensure reconciling items were properly resolved. Researching unreconciled items in a timely manner improves accountability and the campus' ability to detect errors and irregularities.

EXPENDITURE TRANSFERS [17]

Plans of financial adjustments used to transfer unused appropriations to the next budget year were not adequately documented. Adequately documenting the rationale for plans of financial adjustments reduces the exposure for errors and irregularities.

PAYROLL AND PERSONNEL [18]

Resident status was not checked on some federal I-9 employment eligibility forms. Complete I-9 forms reduce the risk of noncompliance with Immigration and Naturalization Service (INS) requirements and fines associated with noncompliance.

FIXED ASSETS [19]

PROPERTY SURVEY REPORTS [19]

Campus property was disposed of prior to completion and approval of property survey reports. This is a repeat finding from our two prior FISMA audits. Proper completion and approval of property survey reports strengthen accountability over disposal of state property.

OFF-CAMPUS USE [20]

Certain campus departments did not follow campus control procedures for loaning university property to employees for off-campus use. Providing the property office with appropriate authorization, approval, and notification of property loans provides greater accountability and reduces the risk of theft.

INFORMATION TECHNOLOGY [21]

The existing information technology (IT) disaster recovery plan (DRP) did not address recovery of all business systems or all of the areas required by State Administrative Manual (SAM) §4843.1, and end-user recovery procedures had not been developed. A detailed IT DRP and corresponding business continuation procedures improve the ability of the campus to restore computer operations within a reasonable time frame.

INVESTMENTS [22]

Investment earnings were not distributed to certain trust accounts. Timely distribution of investment earnings to the appropriate trust accounts enables the trust account managers to fully utilize funds.

TRUST FUNDS [23]

TRUST ADMINISTRATION [23]

Documentation to support trust projects was incomplete, some trust projects had negative balances, some resources were applied to incorrect funds, and reconciliations were not prepared for account balances within project accounts. Adequate administration over such funds reduces the risk of inappropriate expenditures and loss due to poor trust fund management.

TRUST FUND EXPENDITURES [26]

Controls over trust fund expenditures did not ensure that expenditures were properly approved and supported and in accordance with the trust fund purpose. Adequate controls over trust fund expenditures reduce the risk of inappropriate expenditures and loss.

TRUST AGREEMENTS [27]

Trust accounts did not contain all of the required documentation, and controls over amendments to trust agreements were not adequate. Adequately documenting and maintaining complete records for trust accounts enhance the campus' ability to carry out its fiduciary responsibilities.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

The campus did not have a procedure to periodically request local banks to search for unauthorized bank accounts that use the campus name, address, and federal identification number.

Government Code §13401(b)(3) states that all levels of management of state agencies must be involved in assessing and strengthening the systems of internal accounting and administrative control to minimize fraud, errors, abuse, and waste of government funds.

The director of accounting services stated that the campus did a search of nonprofit organizations that might have linked themselves to the university by name using Guidestar.org as a search engine, but no unknown organizations were identified.

The lack of a process to periodically search for unauthorized bank accounts increases the risk of the campus being associated with improper bank accounts.

Recommendation 1

We recommend that the campus establish and implement procedures to periodically request local banks to search for unauthorized bank accounts that use the campus name, address, and federal identification number.

Campus Response

We concur. By March 1, 2003, the University will establish and implement a policy and procedure to comply with this recommendation.

ACCOUNTS RECEIVABLE

RECORDING, COLLECTION, AND WRITE-OFF

In certain instances, accounts receivable were not properly recorded, collection efforts were inadequate, late charges were not properly applied, and all available options in resolving delinquent accounts were not pursued. This is a repeat finding from our prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

We noted the following:

Recording Accounts Receivable

Accounts receivable were maintained by health services, the library, and parking and were recorded in Banner only at year end. As of January 31, 2002, health services, the library, and parking had outstanding receivables totaling \$1,269; \$58,494; and \$10,341; respectively.

Collection

Our review of ten nonstudent and ten auxiliary receivables disclosed that no collection efforts were being pursued, and formalized collection policies and procedures had not been established. Our review of ten student receivables disclosed that collection letters had not been sent until a year or more after the account became delinquent, late charges were not always properly applied, and the accounts had not been submitted to the Franchise Tax Board (FTB) for tax offset since December 1999.

Write-Off

The campus was not requesting relief from accountability from the state for aggregate account balances exceeding \$1,000, and paid accounts receivable were not cleared timely through the campus payment system.

State Administrative Manual (SAM) §8776.1 requires that uncontested claims be recognized as valid receivables and recorded in agency accounts through specific entries.

SAM §8776.6 requires that each department will develop collection procedures that will assure prompt follow-up on receivables. Further, once the address of the debtor is known, the accounting office will send a sequence of three collection letters; if a reply or payment is not received within 30 days after sending the first letter, the accounting office will send a second letter. This follow-up letter will reference the original request for payment letter and will be stated in a stronger tone. If a response is still not received from the debtor, a second follow-up letter will be sent 30 days following the first follow-up letter. This last letter will include references to prior letters and will state what further actions may be taken in the collection process. Further, if all reasonable collection procedures do not result in payment, departments should initiate one or more actions including, but not limited to, FTB offset procedures and discharge from accountability of uncollectible amounts due from private entities.

Executive Order (EO) No. 616, *Discharge of Accountability*, dated April 19, 1994, states that campuses will be obligated to comply with the collection efforts outlined in SAM §8776.6.

State University Administrative Manual (SUAM) §3822 requires that each campus 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.

The university controller stated that a process/procedure did not exist for recording the health services, library, and parking receivables to the general ledger on a monthly basis. She further stated that prior to January 2002, late charges were not always assessed properly due to lack of a consistent policy/procedure, and collection efforts did not occur on a consistent basis due to staffing issues.

The director of student financial services indicated that she was unable to show that a complete documented due diligence cycle had been performed on these accounts, which is required in order to request relief from accountability.

Inadequate controls over accounts receivables increase the risk that receivables will not be properly controlled and reflected in campus financial statements, reduce the likelihood of collection, and negatively impact cash flow.

Recommendation 2

We recommend that the campus:

- a. Record health services, library, and parking receivables and an allowance for uncollectible amounts on the campus general ledger and regularly reconcile subsidiary detail records to that control total.
- b. Document and implement policies and procedures for the collection of nonstudent receivables.
- c. Strengthen controls over the collection and write-off of receivables to ensure compliance with SAM §8776.6.
- d. Strengthen procedures over the application of student late charges.

Campus Response

We concur. By March 1, 2003, the University will accomplish the following:

- a. Establish and implement a policy and procedure to record health services, library, and parking receivables to the campus general ledger.
- b. Establish and implement a policy and procedure for recording an allowance for uncollectible amounts.
- c. Establish and implement policies and procedures for standardized invoicing, recording and collecting of non-student receivables in a more automated environment utilizing current computer system functionality.
- d. Establish and implement a late fee policy for consistent application of student account late charges.

AUXILIARY BILLINGS

Billings to auxiliary organizations for services rendered were not always timely and properly supported.

A review of 12 invoices issued between November 2001 and January 2002 disclosed that four recharge billings to auxiliary organizations were invoiced over 30 days and up to four months after the services were provided. In addition, seven of the invoices lacked adequate documentation to determine if they were accurate or complete.

SAM §8776.3 requires invoices to be prepared as soon as possible after recognition of a claim.

SAM §20050 indicates that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The university controller stated that invoicing to auxiliary organizations did not occur on a consistent basis due to staffing issues.

Failure to timely invoice or recharge outstanding obligations due to the General Fund from other sources reduces working capital and the likelihood of collecting funds.

Recommendation 3

We recommend that the campus strengthen procedures to ensure that recharges to auxiliary organizations are timely invoiced and properly supported.

Campus Response

We concur. By March 1, 2003, the University will establish and implement policies and procedures for the centralized processing of nonstudent receivables to ensure that these recharges are handled in a systemic, consistent manner.

PURCHASING

Campus procurement card controls did not ensure an adequate review of procurement card purchases and statements, appropriate supporting documentation, and adherence to transaction limits.

Our review of campus procurement card procedures and ten procurement card statements disclosed that:

- ▶ The procurement card manual did not indicate the timeframe within which bank statements/credit card purchase reports must be reconciled.

- ▶ The processing of credit card payments did not include a complete review and analysis of the monthly credit card charges since campus departments did not submit complete supporting documentation to the processing department.
- ▶ Policies and procedures for procurement card post-audits had not been fully documented and post-audits were not being performed.
- ▶ Three single transaction purchase limits were exceeded, two purchases were made by individuals other than the cardholder, two statements were not signed or dated by the cardholders, and three statements did not include vendor itemized invoices or campus lost/itemized receipt forms for all purchases.

EO No. 760, *Procurement Cards*, dated October 16, 2000, states, in part, that the processing of credit card payments must include a complete review and analysis of the monthly credit card charges. In support of the review, the campus departments should be required to submit complete supporting documentation in a timely manner. Further, campus procurement card procedures should include practices such as periodic post-audits.

The California State University, San Marcos (CSU San Marcos) *ProCard Manual*, dated March 2002, states that:

- ▶ Procurement credit card purchases should not be made by anyone other than the authorized cardholder.
- ▶ Cardholders are required to sign and date the bank statement.
- ▶ Cardholders shall require the vendor to itemize all receipts or invoices. If the receipt or invoice is not itemized, the cardholder must write in required information for each line item. A lost/itemized receipt form containing all required information is to be used in lieu of an itemized receipt from the vendor.
- ▶ The procurement card program administrator raises purchase dollar limits only upon receipt of written request, and such requests must justify the need for higher purchase limits.

SAM §20050 states that a satisfactory system of internal accounting and administrative control includes a plan of authorization and record-keeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

The director of procurement and support services stated that the campus had only recently hired an outside public accounting firm to help create policies and procedures.

Inadequate procurement card controls increase the risk of loss from inappropriate acts.

Recommendation 4

We recommend that the campus:

- a. Document the time frame for reconciling bank statements/credit card purchase reports.
- b. Establish procedures to ensure that the processing of credit card payments includes a complete review and analysis of the monthly credit card charges.
- c. Fully document policies and procedures for procurement card post-audits.
- d. Conduct and document procurement card post-audits on a regular basis.
- e. Strengthen controls to ensure compliance with documented procurement card policies and procedures.

Campus Response

We concur with all recommendations. Specifically:

- a. The time frame for reconciling bank statements/credit card purchase reports is scheduled for the 10th of each month. Effective immediately, the campus will track the actual completion dates.
- b. Review, analysis, and approval of the monthly credit card charges are now being completed for each statement by the department budget manager. Signed statement will be maintained on file at the department level.
- c. Documentation of procurement card (ProCard) post-audit policies and procedures is in process and will be completed by February 28, 2003, or sooner.
- d. The initial post-audit review will begin by March 1, 2003, and will be scheduled regularly after that.
- e. In January, department business managers will be reminded of standards for appropriate documentation for ProCard use. During post-audit reviews, documentation will be checked and the department business manager's continued use of the ProCard will depend on meeting documentation standards.

REVOLVING FUND

TRAVEL ADVANCES AND EXPENSE CLAIMS

Controls over travel advances and expense claims did not ensure adequate review.

We found that:

- ▶ Policies and procedures for post-audits of travel expense claims (TEC) had not been documented and post-audits had not been performed since January 2001.
- ▶ A review of ten reimbursed TECs showed that money received for incidentals was not remitted to each individual who went on the trip in four instances and that TEC did not include all supporting receipts. In addition, one travel advance had not been timely cleared, and four travel advances exceeded the actual travel expense.

CSU San Marcos memorandum, *Travel Expense Claims*, dated March 17, 2000, states that beginning May 1, 2000, TECs will be subject to random audits on a semimonthly basis by accounting services staff to ensure complete compliance with CSU travel policy.

SAM §8116.2 requires the submittal of a properly prepared TEC to substantiate travel expenses as soon as possible after the trip or at least once a month and periodic statements sent no less frequently than bimonthly to notify employees who have travel advances but have not submitted a TEC to substantiate the travel expenses and/or have not returned any excess travel advance amount.

SAM §20050 states that a satisfactory system of internal accounting and administrative control includes a plan of authorization and record-keeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

The director of procurement and support services stated that the campus had only recently hired an outside public accounting firm to help create policies and procedures. He further indicated that the department had been understaffed and unable to conduct the audits, as well as review every travel expense claim.

Inadequate controls over travel advances and expense claims increase the risk of loss of funds and inappropriate reimbursements.

Recommendation 5

We recommend that the campus:

- a. Document policies and procedures for post-audits of travel expense claims.
- b. Perform post-audits in a timely manner.
- c. Disburse funds only to those who have incurred the actual expense.
- d. Clear advances timely.

- e. Discourage excessive travel advances.

Campus Response

We concur with all recommendations. Specifically:

- a. Documentation of post-audit travel expense claim policies and procedures is in process. Publication is scheduled for February 28, 2003, or sooner.
- b. Travel expense claim post-audits will begin by March 1, 2003.
- c. With the exception of athletic team travel, funds are only dispensed to those who incurred the expense. The campus is exploring travel options for the athletic teams (golf and track) to meet travel policy. Further guidance by audit staff on this matter may be needed. This will be completed by March 1, 2003.
- d. By January 31, 2003, all past-due travel advance claims will be cleared or referred to senior management for action. Starting February 1, 2003, travel advances will be cleared within 30 days of the trip or referred to senior management for further action.
- e. By February 1, 2003, we will define 'excessive travel advances,' identify individuals who fall into this category, and begin working with those individuals and appropriate senior managers to clear excessive advances, and keep them cleared on a continuous basis.

CHANGE FUNDS

Custody of change funds was not always properly documented.

Our review disclosed that the individuals listed as custodians on the change fund sign-out forms did not correspond to the individuals who signed as custodians on the surprise audit forms for 5 of 24 change funds.

SAM §8111.2 states that transfers of custody will be accomplished only after a personal audit of the fund has been made by the employees directly concerned and a receipt has been given by the newly assigned custodian to the custodian being relieved. A copy of such receipt signed by both parties will be delivered to the accounting department.

The director of student financial services stated that since the majority of these change funds are audited annually in accordance with SAM regulations, personnel turnover resulting in custodian changes were not always brought to the attention of her department.

Inadequate controls over change funds increase the risk of loss of funds.

Recommendation 6

We recommend that the campus strengthen procedures to ensure that receipts be completed whenever there is a change in change fund custodians.

Campus Response

We concur. By January 31, 2003, the campus will amend the current policy with additional procedures to ensure change fund custodians are updated.

CASH DISBURSEMENTS

DISBURSEMENTS

Vendor data records were incomplete in certain instances, and invoices were not always promptly paid.

Our review of 30 cash disbursements for the period July 2001 through January 2002 disclosed that:

- ▶ Three vendor data records (STD. 204 form) were not complete. The resident/nonresident section was not completed in two instances, and the vendor identification number was not indicated in another instance. This is a repeat finding from our prior FISMA audit.
- ▶ Three invoices were paid between 63 to 104 days past the invoice date.

SAM §8422.190 requires that a completed STD. 204 form must be obtained whenever a state agency engages in a transaction that leads to a payment to any entity that is not a governmental entity. Further, for noncontract transactions, this form must be completed by the vendor and retained in the state agency's business services or accounting office as determined by state agency policy.

California State University (CSU) coded memorandum accounting department 99-07, *Prompt Pay Act Memo*, dated April 19, 1999, states that although Government Code §927.1(a), *Prompt Payment Act*, does not expressly apply to the CSU, it is still the policy of the CSU to pay vendors as expeditiously as possible.

SAM §8474 indicates that properly submitted, undisputed invoices shall be paid on the date required by the contract, which shall not exceed 45 days.

The director of procurement and support services stated that the vendor data records should be checked for completion prior to paying a vendor and that the three cited instances of late payments were oversights.

Inadequate controls over cash disbursements increase the risk of penalties, fines, or interest charges and noncompliance with the *Prompt Payment Act*.

Recommendation 7

We recommend that the campus strengthen controls to ensure that STD. 204 forms are properly completed and invoices promptly paid.

Campus Response

We concur. Effective immediately, STD. 204 forms will be accepted only if properly completed. Invoices will be paid within the contracted timelines. Continuous improvement in this area is forecasted as we now have full staff in accounts payable. Regular reviews will be conducted within the department, and random post-audits will be conducted to assure accepted forms are complete and to provide feedback to operational management and staff to assist in continuous process improvement, which will start immediately.

BANK RECONCILIATIONS

Controls over bank reconciliations did not ensure reconciling items were properly resolved.

Our review of the bank reconciliations for the months ending February 2002 showed 18 reconciling items, totaling \$138,906, dated between July 1998 and January 2002. SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The director of accounting services stated that the January 1998 Banner conversion called for the development of unique campus reconciliation tools, which affected the monthly bank reconciliation process. He further stated that the majority of outstanding items represent data feed issues resulting from the 1998 system conversion.

Not researching unreconciled items in a timely manner compromises accountability and increases the risk that errors and irregularities will not be detected.

Recommendation 8

We recommend that the campus strengthen procedures to ensure that reconciling items on the bank reconciliation are adequately supported and promptly resolved.

Campus Response

We concur. Although our current procedures provide for documentation of reconciling items, we will increase the number of copies of documentation. A copy will be provided to the individual responsible for resolving each item, and a copy will be included in each month's reconciliation file.

Of the 18 items noted on the February 2002 reconciliation, 6 remain. These items will be resolved by March 31, 2003. In order to insure prompt resolution of future reconciling items, a policy will be developed and implemented within the next 60 days. Management will review all reconciling items on a monthly basis to ensure timely and appropriate resolution.

EXPENDITURE TRANSFERS

Plans of financial adjustment used to transfer unused appropriations to the next budget year were not adequately documented.

We noted that the campus submitted five plans of financial adjustment, totaling \$1,869,461, between February 2001 and April 2001, to move appropriations available for expenditure through a series of transfers between a prior and current budget period without adequate documentation, including the rationale for the amounts transferred.

Government Code §16304 states that an appropriation shall be available for encumbrance, which is a commitment for expenditure, during the period specified therein, or, if not limited by law, for three years after the date upon which it first became available for encumbrance. It further states that an appropriation shall be deemed to be encumbered at the time and to the extent that a valid obligation against the appropriation is created.

Government Code §16304.1 states that payments fulfilling these obligations may be made before or during the two years following the last day an appropriation is available for encumbrance. Upon the expiration of the two years, following the last day of the period of its availability, the unused balance of any appropriation shall revert to, and become a part of, the fund from which the appropriation was made.

SAM §20050 states that a satisfactory system of internal accounting and administrative controls includes a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The university budget officer stated that the appropriation transfer was completed to avoid the reversion of unused funds for the future benefit of the campus and promote the efficient use of appropriated monies. The director of accounting services stated that the intent of using plans of financial adjustment was documented in a planning calendar reviewed by committee. He further stated that the campus had received instructions from the chancellor's office to apply current year expenditures via plans of financial adjustment against reverting appropriations to eliminate the State Controller's Office balance.

Failure to adequately document the rationale for plans of financial adjustment increases campus exposure to errors and irregularities.

Recommendation 9

We recommend that the campus strengthen the controls over monitoring appropriations available for expenditure and establish procedures to ensure that all plans of financial adjustment are adequately supported, including the rationale for amounts transferred, when appropriate.

Campus Response

We concur, with clarification. The plans of financial adjustment (PFAs) identified in the audit finding were initiated to utilize unspent balances from prior year General Fund appropriations. In the annual budget act language, year-end appropriation balances are reappropriated in the subsequent year's budget (Item 6610-490) for the support of the CSU without restriction. By this language, we understand that expenditures incurred during the current fiscal year may be recorded and transferred between any active General Fund appropriations.

However, to comply with the intent of the audit concern, effective immediately, accounting services will obtain documentation from the chief financial officer or his designee, or from the transaction initiator of the proposed PFAs to identify the purpose of the transaction, and will secure written approval for each PFA from the university controller prior to submitting it to the State Controller's Office.

PAYROLL AND PERSONNEL

Resident status was not checked on some federal I-9 employment eligibility forms.

An examination of ten I-9 forms showed that resident status (e.g., citizen, permanent resident) was not checked on two forms.

Immigration Reform and Control Act of 1986 requires that an Immigration and Naturalization Service (INS) Form I-9 be used by employers as a record of their basis for determining eligibility of an employee to work in the United States, and employers must complete and maintain Form I-9 for each and every employee.

The director of human resources stated that these two forms were reviewed by human resources employees who normally do not review I-9 forms.

Incomplete I-9 forms increase the risk of noncompliance with INS requirements and fines associated with noncompliance.

Recommendation 10

We recommend that the campus strengthen procedures to ensure complete I-9 forms.

Campus Response

We concur. The Human Resources and Equal Opportunity (HREO) department has strengthened its procedures by ensuring that only trained personnel review and audit I-9 forms for completion. This was immediately corrected after the initial finding; continuous training and reminders are provided to the HREO staff to support continued compliance. Regular reviews will be conducted within the department, and random post-audits will be conducted to assure accepted forms are complete and to provide feedback to operational management and staff to assist in continuous process improvement, which will start immediately.

FIXED ASSETS

PROPERTY SURVEY REPORTS

Campus property was disposed of prior to completion and approval of property survey reports. This is a repeat finding from our two prior FISMA audits.

We reviewed ten asset disposals exceeding \$5,000 and found that nine of the items had been disposed of prior to property survey board approval.

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.

SAM §3520.5 indicates, in part, that a properly executed property survey report must be completed when disposing of state-owned property, missing property is to be investigated by the department of public safety, and property survey reports should include a section for a certification of disposition.

The vice president of finance and administrative services stated that the university has not defined how to handle the disposal of equipment.

Not completing and approving property survey reports prior to asset disposal reduces accountability over the disposal of state property.

Recommendation 11

We recommend that the campus review and strengthen property survey procedures to ensure that property disposals receive preapproval from the property survey board.

Campus Response

We concur. Management and staff have reinforced existing procedures to meet this requirement. Since the campus was notified of this finding, 100 percent of property survey disposals were completed after approval by the property survey board.

OFF-CAMPUS USE

Certain campus departments did not follow campus control procedures for loaning university property to employees for off-campus use.

A site visit to various campus department locations to follow up on a sample selection of 15 acquisitions disclosed that two of the property items were loaned to staff for off-campus use without evidence of a property action request form.

The campus *Property Policy and Procedures Manual* requires written approval from an authorized department designee prior to lending property to employees for off-campus use. Further, a property action request form must first be processed through the campus property office.

The associate vice president of finance and administrative services stated that managers did not adhere to campus policy because they either forgot, or never knew the policy existed. She further indicated that campus policies were not always reinforced to a great extent and only as of recently have been provided on-line so that managers may have an easy means of checking to see if a policy exists.

Not providing the property office with proper authorization, approval, and notification for off-campus use of property increases the risk of theft and inadequate accountability.

Recommendation 12

We recommend that the campus strengthen controls over the loaning of university property to employees for off-campus use.

Campus Response

We concur. The director of procurement and the materials management staff will work with department business managers to reinforce the policy and identify problem areas that require attention by senior management. This effort will be linked to the scheduled equipment surveys. This will be completed by March 1, 2003.

INFORMATION TECHNOLOGY

The existing information technology (IT) disaster recovery plan (DRP) did not address recovery of all business systems or all of the areas required by State Administrative Manual (SAM) §4843.1, and end-user recovery procedures had not been developed.

SAM §4841 requires state agencies to provide for the proper use and protection of its information assets by establishing appropriate policies and procedures for preserving the integrity and security of automated files and databases.

SAM §4843.1 requires each state agency to establish and maintain both an operational recovery plan to protect its information assets in the event of a disaster or serious disruption to its operations and a plan to resume operation following a disaster affecting those applications.

EO No. 696, *Implementation of the California State University Emergency Preparedness Program*, dated January 29, 1999, states, in part, that each campus president is delegated the responsibility for the implementation of an emergency management system program on campus and shall ensure that management activities including, but not limited to, maintenance and regular updating of the institutional emergency management system plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

The director of systems development and software engineering stated that plans were in place to acquire the necessary hardware and that recovery procedures were documented, but comprehensive detailed recovery policies and procedures had not been completed.

Without a detailed IT DRP and corresponding business continuation procedures, the campus may not be able to restore computer operations within a reasonable time frame, which could impact the ability of the campus to conduct normal business operations.

Recommendation 13

We recommend that the campus:

- a. Enhance the IT DRP by adding detailed procedures for all sections outlined in SAM, develop campus continuity plans to sustain business operations during an extended outage of data processing services, and add an assumptions list that should be shared with the business users to enhance their understanding of what services will and will not be restored as part of the IT recovery plan. The assumptions list should also reflect the status of data files at the time of restoration.
- b. Conduct a business impact assessment to determine the maximum length of time that the departments could operate without data processing services and identify the equipment and information that would be needed to sustain operations during an outage of data processing services.

- c. Develop written manual operating and recovery procedures for business units to assist operations during an extended outage of data processing services, such as manual recovery of lost data, and procedures for entering data collected manually during a prolonged system outage.

Campus Response

We concur. Specifically:

- a. Instructional and Information Technology Services (IITS) will form a DRP working group comprised of managers of IITS and relevant business units to modify the IT DRP to include detailed procedures for all sections outlined in SAM. The working group will develop campus continuity plans to sustain business operations during an extended outage of data processing services, and add an assumptions list that should be shared with the business users to enhance their understanding of what services will and will not be restored as part of the IT recovery plan. The assumptions list will contain the status of data files at the time of restoration. This will be completed by March 31, 2003.
- b. The director of procurement services will form a Business Impact Assessment working group comprised of key operating unit managers to assess length of time that the departments could operate without data processing services and identify the equipment and information that would be needed to sustain operations during an outage of data processing services. This will be completed by March 1, 2003.
- c. By March 1, 2003, managers for the finance and business services departments will review and update business plans to accommodate manual operating and recovery procedures for extended periods of time. This will include manual recovery of lost data, and procedures for entering data collected manually during a prolonged system outage.

INVESTMENTS

Investment earnings were not distributed to certain trust accounts.

Investment earnings had not been allocated back to trust accounts for Associated Students, Inc., the University Student Union, and parking fines/forfeitures since July 1, 1999. The funds were held in the general ledger investment pool account.

SUAM §3824 states that the campus president may define the rules for distribution of interest income, except where interest income is defined in instruments such as a bond resolution, trust project agreement, and federal funding contracts.

Campus memorandum, *Allocation of Interest Earnings*, dated May 17, 2001, states that the campus president is authorizing the reallocation of the interest earnings from university invested cash trust funds to the university discretionary fund. The change in campus policy will be ongoing and will include the interest earnings from 1999/2000 investments as well as earnings from 2000/2001

investments. The policy change exempts three funds (Associated Students, Inc., University Student Union, and parking fines/forfeitures).

The vice president of finance and administrative services stated that the campus president agreed to centralize investment earnings for a capital outlay project under the direction of the cabinet.

Not distributing investment earnings back to the appropriate trust accounts prevents trust account managers from fully utilizing their funds.

Recommendation 14

We recommend that the campus allocate investment earnings back to the Associated Students, Inc., University Student Union, and parking fines/forfeitures trust accounts for fiscal years 1999/2000 and 2000/2001, and going forward into future fiscal years.

Campus Response

We concur. Investment earnings have been allocated to Associated Students, Inc, University Student Union, and parking fines/forfeitures trust accounts for fiscal years 2000/01 and 2001/02 (through June 30, 2002). By February 1, 2003, a procedure will be developed to allocate these earnings on at least a quarterly basis to all applicable trust accounts. Allocations will be reviewed and approved by the university controller prior to being posted.

TRUST FUNDS

TRUST ADMINISTRATION

Documentation to support trust projects was incomplete, some trust projects had negative balances, some resources were applied to incorrect funds, and reconciliations were not prepared for account balances within project accounts.

Our review of trust projects disclosed that:

- ▶ Sufficient accounting detail was not maintained. Fund balances were not maintained for each individual trust.
- ▶ Eleven of thirteen trust projects had negative cash balances ranging from \$695 to \$271,911 as of June 30, 2001.
- ▶ Nine of thirteen trust projects had negative fund balances ranging from \$52 to \$258,569 as of June 30, 2001.
- ▶ Three of the eight selected financial aid trust projects did not have documentation on file to support the trust account.

- ▶ Financial aid resources from external government agencies, totaling \$194,547, were incorrectly applied to the General Fund in prior periods beginning in 1991. The campus reimbursed the financial aid trust projects in March 2002.
- ▶ Reconciliations for all account balances in trust projects were not completed.

SUAM §3710.01 states that a trust project is an activity or group of related activities, which in the absence of external restrictions, may be combined for accounting purposes. Each unique trust project must be accounted separately, which will provide for balance sheet and income statement reporting and other reports as required. Further, each trust project must maintain a positive cash balance and a positive fund balance.

SUAM §3710.02 states that each trust project must be supported by documentation in one or more forms, such as a contract with an external agency, regulations issued by governmental agencies or the chancellor's office, a letter of gift acceptance, or a trust agreement.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and record-keeping procedures adequate to provide effective accounting over assets, liabilities, revenues, and expenditures.

Code of Federal Regulations, Title 34 §668.14(b) states that by entering into a Higher Education Act program participation agreement, an institution agrees that it will establish and maintain administrative and fiscal procedures and records as may be necessary to ensure proper and efficient administration of funds received from the Secretary of Education.

SAM §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications.

The director of accounting services stated that the negative cash and fund balances for nonfinancial aid trust projects were attributed to a delay in recording an accounting entry to replenish the funds with monies drawn down from investments. The director of student financial services stated that the negative cash and fund balances for financial aid trust projects were attributed to inaccurate entries from a prior period and financial aid disbursements completed prior to external funding. The university controller stated that the reconciliation of financial aid cash has been a departmental priority requiring research by the offices of financial aid, financial aid disbursement, and accounting.

Inadequate trust fund administration increases the risk of inappropriate expenditures and loss due to poor trust fund management.

Recommendation 15

We recommend that the campus:

- a. Maintain sufficient accounting detail to provide fund balances for each individual trust.
- b. Improve oversight procedures to ensure that all trust projects maintain positive fund balances.
- c. Strengthen the controls necessary to maintain complete trust fund documentation on file.

- d. Ensure that all financial aid resources are applied to the appropriate trust project.
- e. Reconcile the account balances within a trust project on a monthly basis.

Campus Response

We concur with recommendations 'a' through 'd', and are already in compliance with several recommendations. We require clarification on recommendation 'e'.

- a. Effective November 1, 2002, the campus reorganized the chart of accounts to establish trust projects in separate fund groups to provide the campus with the ability to produce individual balance sheet statements.
- b. A spreadsheet of cash invested for each trust fund was maintained throughout the audit period. Before expending funds for trust accounts, accounting services checked the spreadsheet to ensure that sufficient funds existed in MetWest to support expenses for each trust account. Also, sufficient cash was maintained to cover cash trust expenditures as a whole. This was done to maximize investment yield. However, to meet the audit standard of maintaining sufficient cash on hand for each trust account, we will be required to invest much less cash in MetWest. Effective November 1, 2002, monthly balance sheet reports are being produced for each trust account, which will be reviewed by the director of accounting services or the university controller monthly. By February 1, 2003, the university will develop procedures to identify cash needs for each trust account, and hold back or draw down cash from MetWest investments accordingly to maintain positive cash balances for each account. We anticipate that this procedure will significantly reduce interest earnings for trust accounts.
- c. Effective immediately, the university controller, with the assistance of the university budget office, has been charged with the responsibility to ensure that complete trust fund documentation is on file for each account.
- d. The director of student financial services completed a reconciliation of financial aid funds which resulted in the reimbursement to the financial aid trust in March 2002. The director of student financial services will complete an annual reconciliation to ensure that financial aid funds are appropriately applied.
- e. This finding has the potential to have a workload impact that the campus would not be able to support with existing resources. By March 1, 2003, the campus will clarify with the university auditor's office the expectation for monthly trust balance reconciliations, and begin implementing the agreed-upon process.

TRUST FUND EXPENDITURES

Controls over trust fund expenditures did not ensure that expenditures were properly approved and supported and in accordance with the trust fund purpose.

- ▶ There was no process to ensure that expenditures were for authorized purposes. Currently, this is the responsibility of the trust owner. This is a repeat finding from our prior FISMA audit.
- ▶ Policies and procedures for campus trust expenditure post-audits were not documented.
- ▶ A review of 19 trust expenditures disclosed that staff members who were not authorized signatories on the trust agreements approved expenditures in 13 instances, and supporting documentation was not adequate in two instances.

Education Code §89721(g) restricts trust fund disbursement of trust fund resources to purposes authorized in the trust fund agreements.

CSU San Marcos policy and procedures, *Trust Fund Projects*, dated March 18, 2002, states, in part, that with the objective of maintaining expenditures in accordance with the purpose of a trust project, expenditures are subject to either preapproval by the chief financial officer or a post-audit review based either upon dollar amount or special focus.

SAM §19440.1 requires that only those persons whose signatures appear on the trust agreement make expenditures from trust accounts.

The director of accounting services stated that a new policy concerning trust fund disbursements was approved in March 2002 but has not been fully implemented.

Failure to assure that all expenditures are in accordance with trust agreements and properly approved and supported increases the risk of inappropriate expenditures and loss.

Recommendation 16

We recommend that the campus:

- a. Improve oversight procedures to ensure that expenditures are for authorized purposes.
- b. Establish and document policies and procedures for trust expenditure post-audits.
- c. Strengthen procedures to assure that only authorized signatures are accepted for expenditures of trust funds.

Campus Response

We concur.

- a. The university controller, with the assistance of the university budget office, has been charged with the responsibility to maintain trust account documentation to identify appropriate expenditures for each trust account. Effective April 1, 2003, trust account expenditures will be subject to post-audit review.
- b. The offices of internal control and internal audit will work with the university controller, university budget office, and the procurement office to review the campus Trust Fund Procedure for compliance with defined internal control procedures, including documentation of post-audit procedures of expenditures by March 31, 2003.
- c. The university has developed a process for updating trust agreements and signatures, and establishing trust budgets at least annually. The university controller will be responsible for implementing this process by April 1, 2003.

TRUST AGREEMENTS

Trust accounts did not contain all of the required documentation, and controls over amendments to trust agreements were not adequate.

We noted that:

- ▶ Written concurrence was not obtained from trust administrators for amendments to agreements. This is a repeat finding from our prior FISMA audit.
- ▶ Three of the ten agreements reviewed were incomplete. This is a repeat finding from our prior FISMA audit. The Type of Expenditure Allowed field was not completed on one agreement, and specimen signatures to authorize expending of funds were not documented on two agreements.
- ▶ Administration fees are not clearly defined in the trust agreement.
- ▶ Six of the ten agreements reviewed included personnel authorized to expend funds that were no longer employed by the campus.

SAM §19440 states that each trust account established shall be supported by documentation as to the type of trust donor or source of trust monies, purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balances, and restrictions on the use of monies for administrative or overhead costs.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative control include an established system of practices to be followed in performance of duties and functions in each of the state agencies.

The associate director of the budget office stated that a new policy concerning trust funds was approved in March 2002 but has not been fully implemented.

The campus cannot effectively execute its fiduciary responsibilities without adequately documenting and maintaining complete records of trust agreements.

Recommendation 17

We recommend that the campus establish procedures to obtain and retain all required documentation in support of each established trust/project account.

Campus Response

We concur. The university has adopted a policy and procedure for updating trust agreements, signatures and establishing trust budgets at least annually. The university controller, with the assistance of the university budget office, will be responsible for implementing this process by April 1, 2003.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Alexander Gonzalez	President
Jo-Ellen Anderson	Data Control Technician
Jim Carr	Materials Management Lead
Carla Charlow	Accounts Payable Lead
Alice Chary	Accountant
Deborah Coronado	Associate Director, Human Resources and Equal Opportunity
Bill Craig	Computer Operations Lead
Barbara Dovenbarger	University Controller
Dennis Esinel	Computer Information Technology Consultant
Stephen G. Garcia	Vice President, Finance and Administrative Services
Kim Gomez	Accounts Receivable Technician
Elizabeth Grace	Coordinator, Contracts and Construction
Michael Gray	Budget Analyst
Suzanne Green	Associate Vice President, Finance and Administrative Services
Patti Hale	Adjudication Coordinator
Linda Hawk	Director, Student Financial Services
Linda Hawkins	Former Director, Procurement and Support Services
Cherine Heckman	Director, Office of Admissions
Randy Helfond	Financial Reporting and Internal Coordinator
Tricia Henlon	Budget Manager, Extended Studies
Mike Irick	Assistant Director, Administrative Computing
Melody Kessler	Director of Human Resources
Dora Knoblack	Director, Campus Enterprises
Deborah Kuhn	Buyer
Michelle Larenzana	Accounts Payable Technician
Lam Le	Accounting Manager
Karen Leigh Herron	Assistant to the Dean, College of Education
Richard Loucks	Director, Accounting Services
Dora McArdle	Assistant to the Director of Admissions
Robert Page	Manager Financial Systems Operations
Richard Parzonko	University Budget Officer
Diane Peterson	Enterprise Resource Planning Systems Lead
Edward Pohlert	Director, Educational Achievement and Retention Services
Cathy Rank	Associate Director, Budget Office
Syed Rizvi	Director, Financial Aid and Scholarship
Luci Rowe	Accounting Technician
Theresa Ruffolo	Administrative Support Coordinator, Procurement Services
Barbara Sainz	Coordinator, Commodities/Accounts Payable/Materials Management
Deborah Smith	Risk Management Specialist
Greg Svatora	Business Manager, California State University, San Marcos Foundation
Paul Tiglao	Cashier Coordinator
Agnes Tobe	Accountant

APPENDIX A

Art Torres	Director, Procurement and Support Services
Wayne Veres	Director, Systems Development and Software Engineering
Stephen Welch	Faculty, College of Arts and Sciences
Robert Williams	Technology Coordinator, Parking Services
Aaron Woodard	Lieutenant, University Police

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.



Office of the Vice President, Finance and Administrative Services

Stephen G. Garcia
Chief Financial Officer and Vice President

California State University San Marcos
San Marcos, California 92096-0001 USA

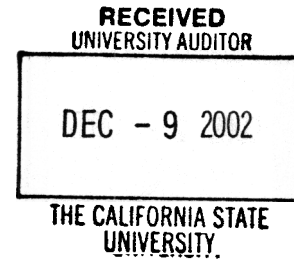
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Date: December 5, 2002

To: Larry Mandel
University Auditor

From: Stephen Garcia
Chief Financial Officer & Vice President
Finance and Administrative Services
Cal State San Marcos

Subject: **Campus Responses to Recommendations of Audit Report Number 02-05, FISMA, at California State University San Marcos**



Enclosed are responses to the recommendations of FISMA Audit Report 02-05 for California State University San Marcos. Please feel free to contact Dean Manship by email at dmanship@csusm.edu or by phone at (760) 750-4503 if we can be of any further assistance.

FISMA

**CALIFORNIA STATE UNIVERSITY,
SAN MARCOS**

REPORT NO. 02-05

CASH RECEIPTS

Recommendation 1

We recommend that the campus establish and implement procedures to periodically request local banks to search for unauthorized bank accounts that use the campus name, address, and federal identification number.

Campus Response

We concur. By March 1, 2003, the University will establish and implement a policy and procedure to comply with this recommendation.

ACCOUNTS RECEIVABLE

RECORDING, COLLECTION, AND WRITE-OFF

Recommendation 2

We recommend that the campus:

- a. Record health services, library, and parking receivables and an allowance for uncollectible amounts on the campus general ledger and regularly reconcile subsidiary detail records to that control total.
- b. Document and implement policies and procedures for the collection of nonstudent receivables.
- c. Strengthen controls over the collection and write-off of receivables to ensure compliance with SAM §8776.6.
- d. Strengthen procedures over the application of student late charges.

Campus Response

We concur. By March 1, 2003, the University will accomplish the following:

- a. Establish and implement a policy and procedure to record health services, library, and parking receivables to the campus general ledger.

- b. Establish and implement a policy and procedure for recording an allowance for uncollectible amounts.
- c. Establish and implement policies and procedures for standardized invoicing, recording and collecting of non-student receivables in a more automated environment utilizing current computer system functionality.
- d. Establish and implement a late fee policy for consistent application of student account late charges

AUXILIARY BILLINGS

Recommendation 3

We recommend that the campus strengthen procedures to ensure that recharges to auxiliary organizations are timely invoiced and properly supported.

Campus Response

We concur. By March 1, 2003, the University will establish and implement policies and procedures for the centralized processing of non-student receivables to ensure that these recharges are handled in a systemic, consistent manner.

PURCHASING

Recommendation 4

We recommend that the campus:

- a. Document the time frame for reconciling bank statements/credit card purchase reports.
- b. Establish procedures to ensure that the processing of credit card payments includes a complete review and analysis of the monthly credit card charges.

Fully document policies and procedures for procurement card post-audits.

- d. Conduct and document procurement card post-audits on a regular basis.
- e. Strengthen controls to ensure compliance with documented procurement card policies and procedures.

Campus Response

We concur with all recommendations. Specifically:

- a. The timeframe for reconciling bank statements/credit card purchase reports is scheduled for the 10th of each month. Effective immediately, the campus will track the actual completion dates.

- b. Review, analysis and approval of the monthly credit card charges are now being completed for each statement by department budget manager. Signed statement will be maintained on file at the department level.
- c. Documentation of ProCard post-audit policies and procedures in process and will be completed by 2/28/03 or sooner.
- d. The initial post-audit review will begin by March 1, 2003, and be scheduled regularly after that.
- e. In January, department business managers will be reminded of standards for appropriate documentation for ProCard use. During post-audit reviews, documentation will be checked and the department business manager's continued use of ProCard will depend on meeting documentation standards.

REVOLVING FUND

TRAVEL ADVANCES AND EXPENSE CLAIMS

Recommendation 5

We recommend that the campus:

- a. Document policies and procedures for post-audits of travel expense claims.
- b. Perform post-audits in a timely manner.
- c. Disburse funds only to those who have incurred the actual expense.
- d. Clear advances timely.
- e. Discourage excessive travel advances.

Campus Response

We concur with all recommendations. Specifically:

- a. Documentation of post-audit travel expense claim policies and procedures is in process. Publication is scheduled for 2/28/03 or sooner.
- b. Travel expense claim post-audits will begin by March 1, 2003.

With the exception of athletic team travel, funds are only dispensed to those who incurred the expense. The campus is exploring travel options for the athletic teams (golf and track) to meet travel policy. Further guidance by audit staff on this matter may be needed. This will be completed by March 1, 2003.

- d. By January 31, 2003, all past due travel advance claims will be cleared or referred to senior management for action. Starting February 1, 2003, travel advances will be cleared within 30 days of the trip or referred to senior management for further action.

- e. By February 1, 2003, we will define 'excessive travel advances', identify individuals who fall into this category, and begin working with those individuals and appropriate senior managers to clear excessive advances, and keep them cleared on a continuous basis.

CHANGE FUNDS

Recommendation 6

We recommend that the campus strengthen procedures to ensure that receipts be completed whenever there is a change in change fund custodians.

Campus Response

We concur. By January 31, 2003 the campus will amend the current policy with additional procedures to ensure change fund custodians are updated.

CASH DISBURSEMENTS

DISBURSEMENTS

Recommendation 7

We recommend that the campus strengthen controls to ensure that STD. 204 forms are properly completed and invoices promptly paid.

Campus Response

We concur. Effective immediately, STD. 204 forms will be accepted only if properly completed. Invoices will be paid within the contracted timelines. Continuous improvement in this area is forecasted as we now have full staff in Accounts Payable. Regular reviews will be conducted within the department and random post-audits will be conducted to assure accepted forms are complete and to provide feedback to operational management and staff to assist in continuous process improvement which will start immediately.

BANK RECONCILIATIONS

Recommendation 8

We recommend that the campus strengthen procedures to ensure that reconciling items on the bank reconciliation are adequately supported and promptly resolved.

Campus Response

We concur. Although our current procedures provide for documentation of reconciling items, we will increase the number of copies of documentation. A copy will be provided to the individual responsible for resolving each item and a copy will be included in each month's reconciliation file.

Of the 18 items noted on the February, 2002 reconciliation, 6 remain. These items will be resolved by March 31, 2003. In order to insure prompt resolution of future reconciling items a policy will be developed and implemented within the next 60 days. Management will review all reconciling items on a monthly basis to ensure timely and appropriate resolution.

EXPENDITURE TRANSFERS

Recommendation 9

We recommend that the campus strengthen the controls over monitoring appropriations available for expenditure and establish procedures to ensure that all plans of financial adjustment are adequately supported, including the rationale for amounts transferred, when appropriate.

Campus Response

We concur, with clarification. The PFA's identified in the audit finding were initiated to utilize unspent balances from prior year General Fund appropriations. In the annual budget act language, year end appropriation balances are reappropriated in the subsequent year's budget (Item 6610-490) for the support of the CSU without restriction. By this language, we understand that expenditures incurred during the current fiscal year may be recorded and transferred between any active general fund appropriations.

However, to comply with the intent of the audit concern, effective immediately, Accounting Services will obtain documentation from the Chief Financial Officer or his designee, or from the transaction initiator of the proposed PFAs to identify the purpose of the transaction, and will secure written approval for each PFA from the University Controller prior to submitting it to the State Controller's Office.

PAYROLL AND PERSONNEL

Recommendation 10

We recommend that the campus strengthen procedures to ensure complete I-9 forms.

Campus Response

We concur. The Human Resources & Equal Opportunity department has strengthened its procedures by ensuring that only trained personnel review and audit I-9 forms for completion. This was immediately corrected after the initial finding; continuous training and reminders are provided to the HREO staff to support continued compliance. Regular reviews will be conducted within the department and random post-audits will be conducted to assure accepted forms are complete and to provide feedback to operational management and staff to assist in continuous process improvement which will start immediately.

FIXED ASSETS

PROPERTY SURVEY REPORTS

Recommendation 11

We recommend that the campus review and strengthen property survey procedures to ensure that property disposals receive preapproval from the property survey board.

Campus Response

We concur. Management and staff have reinforced existing procedures to meet this requirement. Since the campus was notified of this finding, 100% of property survey disposals were completed after approval by the property survey board.

OFF-CAMPUS USE

Recommendation 12

We recommend that the campus strengthen controls over the loaning of university property to employees for off-campus use.

Campus Response

We concur. The Director of Procurement and the Materials Management staff will work with department business managers to reinforce the policy and identify problem areas that require attention by senior management. This effort will be linked to the scheduled equipment surveys. This will be completed by March 1, 2003.

INFORMATION TECHNOLOGY

Recommendation 13

We recommend that the campus:

- a. Enhance the IT DRP by adding detailed procedures for all sections outlined in SAM, develop campus continuity plans to sustain business operations during an extended outage of data processing services, and add an assumptions list that should be shared with the business users to enhance their understanding of what services will and will not be restored as part of the IT recovery plan. The assumptions list should also reflect the status of data files at the time of restoration.
- b. Conduct a business impact assessment to determine the maximum length of time that the departments could operate without data processing services and identify the equipment and information that would be needed to sustain operations during an outage of data processing services.

- c. Develop written manual operating and recovery procedures for business units to assist operations during an extended outage of data processing services, such as manual recovery of lost data, and procedures for entering data collected manually during a prolonged system outage.

Campus Response

We concur. Specifically:

- a. IITS will form a DRP working group comprised of managers of IITS and relevant business units to modify the IT DRP to include detailed procedures for all sections outlined in SAM. The working group will develop campus continuity plans to sustain business operations during an extended outage of data processing services, and add an assumptions list that should be shared with the business users to enhance their understanding of what services will and will not be restored as part of the IT recovery plan. The assumptions list will contain the status of data files at the time of restoration. This will be completed by March 31, 2003.
- b. The Director of Procurement Services will form a Business Impact Assessment working group comprised of key operating unit managers to assess length of time that the departments could operate without data processing services and identify the equipment and information that would be needed to sustain operations during an outage of data processing services. This will be completed by March 1, 2003.
- c. By March 1, 2003, managers for the Finance and Business Services departments will review and update business plans to accommodate manual operating and recovery procedures for extended periods of time. This will include manual recovery of lost data, and procedures for entering data collected manually during a prolonged system outage.

INVESTMENTS

Recommendation 14

We recommend that the campus allocate investment earnings back to the Associated Students, Inc., University Student Union, and parking fines/forfeitures trust accounts for fiscal years 1999/2000 and 2000/2001, and going forward into future fiscal years.

Campus Response

We concur. Investment earnings have been allocated to Associated Students, Inc, University Student Union, and parking fines/forfeitures trust accounts for fiscal years 2000/01 and 2001/02 (through June 30, 2002). By February 1, 2003, a procedure will be developed to allocate these earnings on at least a quarterly basis to all applicable trust accounts. Allocations will be reviewed and approved by the University Controller prior to being posted.

TRUST FUNDS

TRUST ADMINISTRATION

Recommendation 15

We recommend that the campus:

- a. Maintain sufficient accounting detail to provide fund balances for each individual trust.
- b. Improve oversight procedures to ensure that all trust projects maintain positive fund balances.
- c. Strengthen the controls necessary to maintain complete trust fund documentation on file.
- d. Ensure that all financial aid resources are applied to the appropriate trust project.
- e. Reconcile the account balances within a trust project on a monthly basis.

Campus Response

We concur with recommendations 'a' through 'd', and are already in compliance with several recommendations. We require clarification on recommendation 'e'.

- a. Effective November 1, 2002, the campus reorganized the chart of accounts to establish trust projects in separate fund groups to provide the campus with the ability to produce individual balance sheet statements.
- b. A spreadsheet of cash invested for each trust fund was maintained throughout the audit period. Before expending funds for trust accounts, Accounting Services checked the spreadsheet to ensure that sufficient funds existed in MetWest to support expenses for each trust account. Also, sufficient cash was maintained to cover cash trust expenditures as a whole. This was done to maximize investment yield. However, to meet the audit standard of maintaining sufficient cash on hand for each trust account, we will be required to invest much less cash in MetWest. Effective November 1, 2002, monthly balance sheet reports are being produced for each trust account, which will be reviewed by the Director of Accounting Services or the University Controller monthly. By February 1, 2003, the University will develop procedures to identify cash needs for each trust account, and hold back or draw down cash from MetWest investments accordingly to maintain positive cash balances for each account. We anticipate that this procedure will significantly reduce interest earnings for trust accounts.
- c. Effective immediately, the University Controller, with the assistance of the University Budget Office, has been charged with the responsibility to ensure that complete trust fund documentation is on file for each account.
- d. The Director of Student Financial Services completed a reconciliation of financial aid funds which resulted in the reimbursement to the financial aid trust in March 2002. The Director of Student Financial Services will complete an annual reconciliation to ensure that financial aid funds are appropriately applied.

- e. This finding has the potential to have a workload impact that the campus would not be able to support with existing resources. By March 1, 2003, the campus will clarify with the University Auditor's office the expectation for monthly trust balance reconciliations, and begin implementing the agreed upon process.

TRUST FUND EXPENDITURES

Recommendation 16

We recommend that the campus:

- a. Improve oversight procedures to ensure that expenditures are for authorized purposes.
- b. Establish and document policies and procedures for trust expenditure post-audits.
- c. Strengthen procedures to assure that only authorized signatures are accepted for expenditures of trust funds.

Campus Response

We concur.

- a. The University Controller, with the assistance of the University Budget Office, has been charged with the responsibility to maintain trust account documentation to identify appropriate expenditures for each trust account. Effective April 1, 2003, trust account expenditures will be subject to post-audit review.
- b. The Offices of Internal Control and Internal Audit will work with the University Controller, University Budget Office, and the Procurement Office to review the campus Trust Fund Procedure for compliance with defined internal control procedures, including documentation of post-audit procedures of expenditures by March 31, 2003.
- c. The University has developed a process for updating trust agreements and signatures, and establishing trust budgets at least annually. The University Controller will be responsible for implementing this process by April 1, 2003.

TRUST AGREEMENTS

Recommendation 17

We recommend that the campus establish procedures to obtain and retain all required documentation in support of each established trust/project account.

Campus Response

We concur. The University has adopted a policy and procedure for updating trust agreements, signatures and establishing trust budgets at least annually. The University Controller, with the assistance of the University Budget Office, will be responsible for implementing this process by April 1, 2003.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

January 9, 2003

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 02-05 on *FISMA*,
California State University, San Marcos

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of January 9, 2003, I accept the response as submitted with the draft final report on *FISMA*, California State University, San Marcos.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

Enclosure

SAN BERNARDINO

SAN DIEGO

cc: Dr. Alexander Gonzalez, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS