

FISMA

SAN DIEGO STATE UNIVERSITY

Report Number 03-02

June 20, 2003

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THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

CSU	California State University
FISMA	Financial Integrity and State Manager's Accountability Act
PMCP	Policy Manual for Contracting and Procurement
PSR	Property Survey Report
SAM	State Administrative Manual
SDSU	San Diego State University
SUAM	State University Administrative Manual

INTRODUCTION

PURPOSE

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

- ▶ Cash receipts are processed in accordance with laws, regulations, and management 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 (SUAM) guidelines.

SCOPE AND METHODOLOGY

The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal year 2001-2002 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 2002 to December 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.

INTRODUCTION

- ▶ Establishment of receivables and adequate segregation of duties regarding billing 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.
- ▶ 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 San Diego State University (SDSU) campus from January 21, 2003, through March 20, 2003, and made a study and evaluation of the accounting and administrative controls in effect as of March 20, 2003. 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.

SDSU 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: cash receipts, fixed assets, and trusts. 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 SDSU accounting and administrative control in effect as of March 20, 2003, 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 [6]

MAIN AND SATELLITE CASHIERING [6]

Cash control weaknesses were found at main cashiering and two of the three satellite cashiering locations visited. Adequately controlling cash receipts reduces campus exposure to loss from inappropriate acts.

APPLICATION FEE RECONCILIATION [7]

The campus completed application fee reconciliations annually instead of each academic year term. Performance of application fee reconciliations within prescribed time frames improves the campus' ability to promptly detect errors and irregularities.

UNCLEARED COLLECTIONS ACCOUNT [8]

The uncleared collections account was inappropriately being used for the deposit of unclaimed warrants and payroll accounts receivable payments. Proper use of the uncleared collections account facilitates the detection of errors and irregularities and improves the accuracy of accounting records.

PURCHASING [9]

LONG-OUTSTANDING PURCHASE ORDERS [9]

Campus procedures did not ensure timely review and follow-up of outstanding purchase orders. Timely follow-up of outstanding purchase orders reduces delivery delays and the possibility that lost orders will not be detected.

LIBRARY PURCHASES [10]

Library personnel performed purchasing functions without a written delegation of authority. Maintaining proper delegations of authority reduces the risk of unauthorized activities.

REVOLVING FUND [10]

Independent cash counts of the Imperial Valley campus petty cash and change funds did not occur with the required frequency, and individuals other than the custodians signed petty cash and change

fund independent counts as the custodian. Adequate control over these funds reduces the risk of loss of funds.

CASH DISBURSEMENTS [11]

Certain long-outstanding checks were not canceled/processed in a timely manner. Promptly canceling long-outstanding checks reduces the risk of misappropriation and the effort needed to reconcile these items.

FIXED ASSETS [12]

PROPERTY IDENTIFICATION [12]

Fixed asset acquisitions were not always appropriately tracked and tagged. Adequate control over tracking and tagging property reduces the risk of misstated inventory and accounting records and theft or loss of state property.

RECONCILIATIONS [13]

Property transactions and physical inventory counts were not reconciled to campus property records in a timely manner. Timely reconciliations of property transactions and physical inventories improve the accuracy of inventory records and reduce the risk of theft or loss of state property.

PROPERTY SURVEY REPORTS [15]

Property survey reports were not properly completed. Proper completion of property survey reports strengthens accountability over the disposal of state property.

TRUST FUNDS [16]

TRUST AGREEMENT DOCUMENTATION [16]

Trust agreement documentation was not always complete. Complete trust fund documentation reduces the risk of improper fund management and inappropriate expenditures.

TRUST EXPENDITURES [17]

Trust fund expenditures were not always properly approved. This is a repeat finding from the prior FISMA review of 2001. Adequate control over trust fund expenditures reduces the risk of inappropriate expenditures and loss.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

MAIN AND SATELLITE CASHIERING

Cash control weaknesses were found at main cashiering and two of the three satellite cashiering locations visited.

The satellite cashiering locations reviewed included health services, the test office, and the college of extended studies.

Accountability for Cash Receipts

Cash receipts were transferred from the test office to main cashiering without the use of transfer receipts, and procedures had not been established to prepare a pre-listing for all incoming mail that consists of cash and checks not made payable to San Diego State University (SDSU).

State Administrative Manual (SAM) §8021 states that a separate series of transfer receipts will be used to localize accountability for cash or negotiable instruments to a specific employee from the time of its receipt to its deposit.

SAM §8020.1 states that all incoming mail receipts consisting of cash and negotiable instruments, not made payable to the agency, will be pre-listed by the person opening the mail to localize accountability of these assets.

The manager of student financial services indicated that she was unaware of the requirement to issue a transfer receipt. She further noted that a pre-listing was not maintained because campus practice was to immediately forward all checks made out to the Foundation to the Foundation cashier.

Safety of Funds

There was no written record of individuals with the combination to the safe at the test office and the date the combination was last changed, and the college of extended studies did not have a record of when their safe combination was last changed.

SAM §8024 requires the changing of safe combinations when employees leave a department and maintaining a record listing the date the combination was last changed and the names of individuals knowing the present combination.

The manager of student financial services stated that neither the staff nor the new director at the test office was aware of this requirement. The supervisor of cashiers for the college of extended studies stated that she was aware of the time the safe combination was last changed but did not maintain a written record.

Inadequate controls over cash receipts increases campus exposure to loss from inappropriate acts.

Recommendation 1

We recommend that the campus:

- a. Establish and implement procedures to utilize transfer receipts between the test office and main cashiering, and prepare a pre-listing of all incoming mail that consists of cash and checks not payable to SDSU.
- b. Maintain a written record of the individuals with the combination to the safe at the test office and the date the combination was last changed at the test office and college of extended studies.

Campus Response

We concur.

- a. Procedures have been established and transfer receipts are now issued between the test office and cashiering. A pre-listing process has been implemented for all incoming mail that consists of checks not payable to SDSU.
- b. In March 2003, the controller distributed a memo to all areas known to have safes reminding staff of the appropriate standards to follow.

APPLICATION FEE RECONCILIATION

The campus completed application fee reconciliations annually instead of each academic year term.

State University Administrative Manual (SUAM) §3825.01 states that a reconciliation of applications for admission to fees received shall be prepared for each academic year term and maintained on file by each campus.

The manager of student financial services indicated that neither she nor the person completing the reconciliation was aware of the requirement to reconcile by term, nor the time frame requirement in which the reconciliation must be completed.

Failure to complete application fee reconciliations in the prescribed time frame increases the risk that errors or misappropriation of funds may not be detected.

Recommendation 2

We recommend that the campus reconcile application fees each academic year term.

Campus Response

We concur. Steps have been taken to change the process and reconciliations by the academic semester term will begin January 2004.

UNCLEARED COLLECTIONS ACCOUNT

The uncleared collections account was inappropriately being used for the deposit of unclaimed warrants and payroll accounts receivable payments.

Our review of the uncleared collections account, totaling \$43,982 as of February 28, 2003, disclosed unclaimed warrants and payments for payroll receivables totaling \$28,816.

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

SAM §10508 states, in part, that varying circumstances determine the clearance of uncleared collections and indicates that items should be cleared at least once each quarter.

SAM §8042 states that office revolving fund and agency checks issued on or after January 1, 1998, have a one-year period of negotiability. Office revolving fund checks outstanding for more than one year or unclaimed, for which the reimbursement to the office revolving fund has not been received, will be canceled and credited back to the office revolving fund. Office revolving fund checks for which the reimbursement has been received and agency checks, whether uncashed for more than one year or unclaimed, will be canceled and the amount of such checks will be remitted to an escheat revenue account in the fund from which they were drawn.

SAM §8580.5 states that warrants not delivered within 90 calendar days of receipt must be deposited and remitted to an escheat revenue account in the original fund that provided the resources to the State Payroll Revolving Fund.

The university controller stated that three offices misunderstood the purpose of the account and were using the fund to deposit unclaimed warrants and checks and deposits, pending aging of one year, at which time they become eligible to be escheated.

Inappropriate use of the uncleared collections account limits the campus' ability to detect errors and irregularities and negatively impacts the integrity of accounting records.

Recommendation 3

We recommend that the campus:

- a. Research and clear the items cited.
- b. Strengthen processes to ensure that procedures for the use of the uncleared collections account are adhered to.

Campus Response

We concur.

- a. The items cited have been researched and cleared.
- b. Processes have been strengthened for unclaimed warrants and checks. Items already deposited will be cleared as it becomes appropriate to escheat them to the state.

PURCHASING

LONG-OUTSTANDING PURCHASE ORDERS

Campus procedures did not ensure timely review and follow-up of outstanding purchase orders. Our review of 30 outstanding purchase orders, dating back to September 1999, disclosed that 18 purchase orders had been left open without proper review or follow-up.

SAM §8422.20 states, in part, that to determine whether all goods and services ordered are actually received, the agency shall develop procedures to follow up on open purchase documents/contracts.

The university controller indicated that the campus follows up on General Fund purchase orders first, which impacts the review of open purchase orders for other funds.

Untimely follow-up of outstanding purchase orders increases the risk of delivery delays and undetected lost orders.

Recommendation 4

We recommend that the campus improve procedures for the timely follow-up and review of outstanding purchase orders.

Campus Response

We concur. The campus will improve its procedures to ensure the review of outstanding purchase orders are done timely. Procedures will be implemented by December 31, 2003.

LIBRARY PURCHASES

Library personnel performed purchasing functions without a written delegation of authority.

Executive Order No. 667, *Acquisition of Personal Property and Services*, dated April 1, 1997, delegates the authority to each campus president or designee to acquire personal property and services where applicable provisions of the *CSU Policy Manual for Contracting and Procurement (PMCP)* issued by the Office of the Chancellor have been followed.

CSU PMCP §102 states that should campus presidents choose to further delegate their purchasing authority, campuses must maintain documentation of such delegation.

The director of procurement services stated that the campus was in the process of creating a library delegation of purchasing authority since the original delegation of authority form could not be located.

Not maintaining formalized delegations of authority for all procurement activities increases the risk of unauthorized activities.

Recommendation 5

We recommend that the campus obtain a formalized delegation of authority for library purchasing.

Campus Response

We concur. The delegation of authority for library purchasing was signed May 2003.

REVOLVING FUND

Independent cash counts of the Imperial Valley campus petty cash and change funds did not occur with the required frequency, and individuals other than the custodians signed petty cash and change fund independent counts as the custodian.

We found that the Imperial Valley campus petty cash and change funds were being counted on an annual versus quarterly basis. In addition, we noted that individuals other than the custodians were signing the independent count form as the custodian for 11 of the 24 petty cash and change funds reviewed.

SAM §8111.2 requires an employee, other than the custodian of the petty cash or change fund, to count each fund in accordance with the prescribed schedule and report them to the accounting office. In addition, transfers of fund custody require that: a) a personal audit of the fund is made by the employees directly concerned, and b) a receipt be 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 officer.

The university controller stated that responsibility for the counts had been delegated to the business officer at the Imperial Valley campus who had neglected to keep them current. She further indicated that the understanding on campus is that in the absence of the custodian, their supervisor would sign the independent count; however, there is no written policy to reflect this.

Internal controls over cash funds are compromised when independent cash counts are not conducted timely and changes in fund custodians are not properly documented.

Recommendation 6

We recommend that the campus:

- a. Implement procedures to ensure that cash funds at the Imperial Valley campus are counted as frequently as required.
- b. Develop a policy to identify the procedures to be followed during a cash count when the custodian is not present.

Campus Response

We concur.

- a. Procedures have been strengthened to ensure cash funds at the Imperial Valley campus are counted as frequently as required.
- b. The SDSU petty cash and change fund policy and procedures were distributed to all petty cash custodians in May 2003.

CASH DISBURSEMENTS

Certain long-outstanding checks were not canceled/processed in a timely manner.

Our review of the bank reconciliation, dated December 31, 2002, disclosed 155 checks totaling \$36,603 older than one year with the oldest check dated August 27, 2001.

SAM §8042 states that:

- ▶ Office revolving fund and agency checks issued on or after January 1, 1998, have a one-year period of negotiability.
- ▶ Office revolving fund checks outstanding more than one year or unclaimed, for which the reimbursement to the office revolving fund has not been received, will be canceled and credited back to the office revolving fund.

The university controller stated that there had been a plan to change cancellation/escheat procedures in the fall 2002 semester. She further stated that when the change was communicated to staff, a misunderstanding led to the suspension of old procedures before the new ones were implemented, thereby causing checks to be held longer than one year.

Not processing long-outstanding checks in a timely manner increases the risk of misappropriation and requires additional review efforts during the bank reconciliation process.

Recommendation 7

We recommend that the campus strengthen processes to ensure that procedures to cancel long-outstanding checks are adhered to.

Campus Response

We concur. The campus has strengthened its procedures to ensure long-outstanding checks are cancelled.

FIXED ASSETS

PROPERTY IDENTIFICATION

Fixed asset acquisitions were not always appropriately tracked and tagged.

We found that:

- ▶ Equipment loan agreement forms were not completed for all six laptops reviewed.
- ▶ Ten of eighteen fixed asset acquisitions reviewed that were received in September and October 2002 were not tagged until February 2003. In addition, equipment tags were often sent to departments to be placed on new equipment, which, in some cases, resulted in lost tags while other tags were not placed in plain sight.

SAM §8600 states that property accounting procedures are designed to maintain uniform accountability for state property. These standard procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate

accounting records and strong internal controls must be in place to protect against and detect the unauthorized use of state property.

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.

SAM §8651 states that all state property will be tagged after acquisition. This includes property which does not meet all of the state's capitalization requirements. The purpose of tagging assets is to designate the assets as belonging to the state. Tags will be placed so that they are in plain sight and easy to read. To the extent possible, all property will be tagged on the assets' front, left-hand corner. The identification number will not be changed when property is moved within the department.

The director of business services indicated that the equipment loan agreement form was intended for equipment that would be off campus for an extended period of time and that none of the laptops inspected were to be off campus for that long. He further indicated that in cases where the equipment was not tagged, it was delivered directly to the department or was picked up by the department, and the department did not notify material management to request a state identification number.

Inadequate controls over tracking and tagging property increase the risk of misstated inventory and accounting records and theft or loss of state property.

Recommendation 8

We recommend that the campus strengthen controls over property tracking and tagging.

Campus Response

We concur. Policies, procedures, and practices will be reviewed and revised as necessary to strengthen controls over property tracking and tagging by December 31, 2003.

RECONCILIATIONS

Property transactions and physical inventory counts were not reconciled to campus property records in a timely manner.

Property Transactions

We found that property reconciliations were completed as follows:

Month Reconciled	Date Prepared	Date Reviewed
June 2002	2/12/03	2/13/03
August 2002	2/27/03	2/28/03
September 2002	2/28/03	2/28/03
October 2002	2/28/03	2/28/03

November 2002	3/04/03	3/04/03
December 2002	3/12/03	3/13/03

This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) review of 2001.

SAM §7924 requires agencies at least quarterly, or monthly, depending upon the volume of property transactions, to reconcile the acquisitions and dispositions of capitalized property with the amounts recorded into the property ledger.

SAM §7901 requires that reconciliations be prepared within 30 days of the preceding month.

The manager of financial reporting stated that the fixed asset reconciliation for June 2002 was kept open primarily to accommodate reconciliation with the Deloitte & Touche Capital Assets Inventory Valuation, which was required by the chancellor's office, and secondarily, to correct a system problem. She added that once these issues were addressed, the campus was able to close the asset accounts for June 2002 and move forward.

Physical Inventory

A reconciliation of physical inventory counts to campus property records that was scheduled to be completed in December 2002 was not expected to be finished until June 2003. The last date the reconciliation was prepared was in December 1999.

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

SAM §8600 states that the combination of accurate accounting records and strong internal controls must be in place to protect against and detect the unauthorized use of state property.

The director of business services stated that due to the inability to close fiscal year 2001/2002 in July 2002, the information collected during the initial phase of the inventory could not be uploaded. He further stated that property survey documents could not be processed in the new fiscal year, which caused a delay in the inventory.

Untimely reconciliations of property transactions and physical inventories increase the risk of misstated inventory and theft or loss of state property.

Recommendation 9

We recommend that the campus:

- a. Strengthen processes to ensure that procedures for the timely preparation and review of property reconciliations are adhered to.
- b. Complete the reconciliation process for the recent physical inventory count.

Campus Response

We concur.

- a. The campus will strengthen processes to ensure that procedures for the preparation and review of property reconciliations are adhered to. Procedures for the preparation and review of property reconciliations are in place. Reconciliations have been completed in a timely manner since February 2003 and will continue.
- b. The reconciliation process for the recent physical inventory count will be completed by December 31, 2003.

PROPERTY SURVEY REPORTS

Property survey reports were not properly completed.

We noted that a sufficient audit trail specifying the final disposition of assets by sale at auction or destruction was not maintained. Specifically, campus property sold at auction by a contracted auctioneer was not reconciled to corresponding property survey reports to ensure the integrity of the auction process.

SAM §3520.9 states that when material is disposed of by means other than sale (i.e., discarded, hauled to landfill, scrapped, or salvaged), the unit supervisor shall certify in writing that the disposition has been accomplished. The certification may be made on the property survey report (PSR) or attached and filed with the PSR. When material is disposed of at a public landfill, a signature shall be obtained from the disposal site operator or attendant indicating that the material listed was disposed of at the site. If the landfill is unattended, the responsible employee and the unit supervisor shall sign and certify that the disposition described was accomplished.

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 director of business services indicated that it would be difficult to reconcile with the list provided by the auctioneer because some items are not identified by either a tag number or a serial number.

Incomplete property survey reports reduce accountability over the disposal of state property.

Recommendation 10

We recommend that the campus review and strengthen property survey procedures to ensure a sufficient audit trail and disposal certification for property sold at auction or disposed of by means other than sale.

Campus Response

We concur. Policies, procedures, and practices will be reviewed and revised as necessary to strengthen controls over property survey by December 31, 2003.

TRUST FUNDS

TRUST AGREEMENT DOCUMENTATION

Trust agreement documentation was not always complete.

Our review of 11 trust funds disclosed that three trust agreements did not contain all of the required documentation. Trust agreement forms did not contain adequate instructions for closing the account and the disposition of any unexpended funds.

SAM §19440.1 states that each trust account established shall be supported by documentation as to the type of trust, donor or source of trust moneys, 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 balance, and restrictions on the use of moneys for administrative or overhead costs. This documentation will be retained until the trust is dissolved.

The university controller indicated that the lack of adequate instructions for closing the account and the disposition of any unexpended funds was due to an oversight.

Lack of complete trust fund documentation increases the risk of improper fund management and inappropriate expenditures.

Recommendation 11

We recommend that the campus strengthen controls necessary to maintain complete trust fund agreements.

Campus Response

We concur. Agreements have been updated with more specific instructions, specifically for disposition of funds upon closure of the trust fund. Many trust fund agreements have been completed, and all trust fund agreements have been reviewed.

TRUST EXPENDITURES

Trust fund expenditures were not always properly approved. This is a repeat finding from the prior FISMA review of 2001.

Our review of 19 trust fund expenditures disclosed that ten expenditures were made without the signatory approval of authorized individuals on the trust fund document.

SAM §19440.1 states that each trust account established shall be supported by documentation as to the type of trust, donor or source of trust moneys, 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 balance, and restrictions on the use of moneys for administrative or overhead costs. This documentation will be retained until the trust is dissolved.

The manager of financial reporting indicated that accounts payable procedures require an authorized approval on any invoice submitted for payment and that the authorization must be made by the manager with overall responsibility for the funds. She further indicated that procedures for verifying payment authorization were not consistently followed.

Failure to assure that all expenditures are properly approved increases the risk of inappropriate expenditures and loss.

Recommendation 12

We recommend that the campus strengthen procedures to ensure that all trust fund expenditures are properly approved.

Campus Response

We concur. The campus will strengthen its approval procedures and the trust accountant will be included in the approval hierarchy for trust fund expenditures. The review process will be completed by November 30, 2003.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Stephen L. Weber	President
Cathleen Austin	Manager of Accounts Payable
Liz Brilliant	Purchasing Program Coordinator
Paul Carlisle	One Card Coordinator, Telecommunications and Network Services
Valerie Carter	Tax and Audit Coordinator
Leslie Chase	Manager of Financial Reporting
Michelle Crownhart	Cashier, Test Office
John Denune	Operating System Analyst, Telecommunications and Network Services
Linda Dotson	Manager of University Collections
Cathy Garcia	Assistant Director of Procurement Services
Ellene Gibbs	Director, Business Information Management
Pamela Hall	Monographs Coordinator, Library
Hans Hartwig	Manager of Distribution Services
Scott Horvath	Information Technology Consultant, Business Services
Lorretta Leavitt	University Controller
Riny Ledgerwood	Director, Telecommunications and Network Services
Mark Lester	Director of Access, Communication and Fiscal Services, Library
Virginia Litonju	Manager of Office Operations, Student Financial Services
Edmund Lucas	Manager of Materials Management
Dana McCoy	Accounting Supervisor
Kay Messinger	Operations Director, Business Information Systems
Judi Mitchell	Manager for Compensation and Payroll Programs
Jeanette Nevandro	Supervisor of Cashiers, College of Extended Studies
Bob Newhouse	Director, University Computer Operations
Mary Ann Patty	Manager of University Cashiers Office
Lawrence Peralez	Director of Business Services
Kenneth Perry	Associate Vice President of Financial Management
Deborah Quiett	Manager of Student Financial Services
Kim Reilly	Systems Coordinator, Business and Financial Affairs
Sally Roush	Vice President of Business and Financial Affairs
Richard Scharff	Director of Procurement Services
Sandy Shaw	Operations Manager, Test Office
Marsha Shea	Serials Acquisitions Coordinator, Library
Brain West	Accountant, Financial Reporting
Phyllis White	Lead Cashier, Test Office
Stephen Williams	Captain, Public Safety
Thomas Wilson	Associate Director, Student Health Services

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the state of California, the CSU Board of Trustees, and the Office of the Chancellor are evaluated by the University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls which may be characterized as either accounting or operational as follows:

1. Internal Accounting Controls

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

C. INTERNAL CONTROL OBJECTIVES

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.

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A Century Of Learning 1897 • 1997
THE PRESIDENT

August 20, 2003

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802



Dear Mr. Mandel

The following is San Diego State University's response to Report Number 03-02, *FISMA*. For ease of reference, the report's recommendations have been included with our responses.

Recommendation 1

We recommend that the campus:

- a. Establish and implement procedures to utilize transfer receipts between the test office and main cashiering, and prepare a pre-listing of all incoming mail that consists of cash and checks not payable to SDSU.
- b. Maintain a written record of the individuals with the combination to the safe at the test office and the date the combination was last changed at the test office and college of extended studies.

Campus Response

We concur

- a. Procedures have been established and transfer receipts are now issued between the test office and cashiering. A pre-listing process has been implemented for all incoming mail that consists of checks not payable to SDSU.
- b. In March 2003 the Controller distributed a memo to all areas known to have safes reminding staff of the appropriate standards to follow.

Mr. Larry Mandel
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August 20, 2003

Recommendation 2

We recommend that the campus reconcile application fees each academic year term.

Campus Response

We concur. Steps have been taken to change the process, and reconciliations by the academic semester term will begin January 2004.

Recommendation 3

We recommend that the campus:

- a. Research and clear the items cited.
- b. Strengthen processes to ensure that procedures for the use of the uncleared collections account are adhered to.

Campus Response

We concur.

- a. The items cited have been researched and cleared.
- b. Processes have been strengthened for unclaimed warrants and checks. Items already deposited will be cleared as it becomes appropriate to escheat them to the state.

Recommendation 4

We recommend that the campus improve procedures for the timely follow-up and review of outstanding purchase orders.

Campus Response

We concur. The campus will improve its procedures to ensure the review of outstanding purchase orders is done timely. Procedures will be implemented by December 31, 2003.

Recommendation 5

We recommend that the campus obtain a formalized delegation of authority for library purchasing.

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Campus Response

We concur. The delegation of authority for library purchasing was signed May 2003.

Recommendation 6

We recommend that the campus:

- a. Implement procedures to ensure that cash funds at the Imperial Valley campus are counted as frequently as required.
- b. Develop a policy to identify the procedures to be followed during a cash count when the custodian is not present.

Campus Response

We concur.

- a. Procedures have been strengthened to ensure cash funds at the Imperial Valley campus are counted as frequently as required.
- b. The SDSU Petty Cash and Change Fund Policy and Procedures was distributed to all petty cash custodians in May 2003.

Recommendation 7

We recommend that the campus strengthen processes to ensure that procedures to cancel long-outstanding checks are adhered to.

Campus Response

We concur. The campus has strengthened its procedures to ensure long-outstanding checks are cancelled.

Recommendation 8

We recommend that the campus strengthen controls over property tracking and tagging.

Campus Response

We concur. Policies, procedures, and practices will be reviewed and revised as necessary to strengthen controls over property tracking and tagging by December 31, 2003.

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Recommendation 9

We recommend that the campus:

- a. Strengthen processes to ensure that procedures for the timely preparation and review of property reconciliations are adhered to.
- b. Complete the reconciliation process for the recent physical inventory count.

Campus Response

We concur.

- a. The campus will strengthen processes to ensure that procedures for the preparation and review of property reconciliations are adhered to. Procedures for the preparation and review of property reconciliations are in place. Reconciliations have been completed in a timely manner since February 2003 and will continue.
- b. The reconciliation process for the recent physical inventory count will be completed by December 31, 2003.

Recommendation 10

We recommend that the campus review and strengthen property survey procedures to ensure a sufficient audit trail and disposal certification for property sold at auction or disposed of by means other than sale.

Campus Response

We concur. Policies, procedures, and practices will be reviewed and revised as necessary to strengthen controls over property survey by December 31, 2003.

Recommendation 11

We recommend that the campus strengthen controls necessary to maintain complete trust fund agreements.

Campus Response

We concur. Agreements have been updated with more specific instructions, specifically for disposition of funds upon closure of the trust fund. Many trust fund agreements have been completed, and all trust fund agreements have been reviewed.

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Recommendation 12

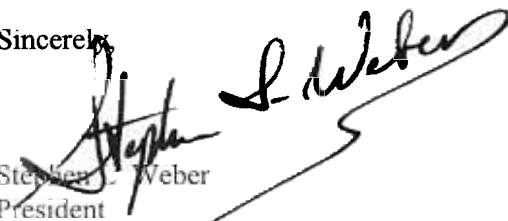
We recommend that the campus strengthen procedures to ensure that all trust fund expenditures are properly approved.

Campus Response

We concur. The campus will strengthen its approval procedures, and the trust accountant will be included in the approval hierarchy for trust fund expenditures. The review process will be completed by November 30, 2003.

Documentation of policy and control changes will follow under separate cover.

Sincerely,



Stephen L. Weber
President

SLW/jsh

- c: Sally F. Roush, Vice President, Business and Financial Affairs
- Kenneth B. Perry, Associate Vice President, Financial Management
- Ellene J. Gibbs, Director, Business Information Management
- Loretta Leavitt, University Controller

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

3

BAKERSFIELD

September 4, 2003

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

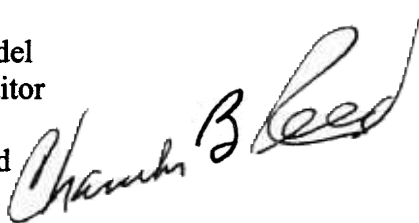
FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report Number 03-02 on *FISMA*,
San Diego State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of September 4, 2003, I accept the response as submitted with the draft final report on *FISMA*, San Diego State University.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/ac

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Ms. Ellene J. Gibbs, Director, Business Information Management
Dr. Stephen L. Weber, President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS