

FISMA
CALIFORNIA STATE UNIVERSITY,
CHICO

Report Number 04-03
August 20, 2004

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CONTENTS

Executive Summary	1
Introduction.....	3
Purpose	3
Scope and Methodology.....	3

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Cash Receipts.....	5
Satellite Cashiering.....	5
Fee Reconciliations	6
Accounts Receivable.....	7
Revolving Fund.....	8
Fixed Assets.....	8
Fiscal Information Technology.....	9

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Statement of Internal Controls
APPENDIX C:	Campus Response
APPENDIX D:	Chancellor's Acceptance

ABBREVIATIONS

CSU	California State University
CSUC	California State University, Chico
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
SRO	Student Records and Registration Office
SUAM	State University Administrative Manual

EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) in 1983. This act requires state agencies to establish and maintain a system of internal accounting and administrative control. To ensure that the requirements of this act are fully complied with, state entities with internal audit units are to complete biennial internal control audits (covering accounting and fiscal compliance practices) in accordance with the *Standards for the Professional Practice of Internal Auditing* (Institute of Internal Auditors) as required by Government Code, Section 1236. The Office of the University Auditor of the California State University (CSU) is currently responsible for conducting such audits within the CSU.

California State University, Chico (CSUC) 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 (SAM), Education Code, Title 5 and Trustee policy.

We visited the CSUC campus from March 22, 2004, through May 12, 2004, and made a study and evaluation of the accounting and administrative controls in effect as of May 12, 2004. This report represents our biennial review.

Our study and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and body of this report.

In our opinion, CSUC's accounting and administrative controls in effect as of May 12, 2004, 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.

The following summary provides 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 [5]

Cash control weaknesses were found at the student records and registration office (SRO). An excessive number of individuals had knowledge of the safe combination, the combination had not been changed following the retirement of an employee with knowledge of the present combination, the SRO small portable safe had not been anchored to the building, and the keys to the room where the safe was located were not adequately safeguarded. In addition, inventory control was not maintained over press-numbered receipts, and handwritten receipts were not always cross-referenced to corresponding transactions subsequently processed in the automated cashiering system. Further, the campus completed application fee reconciliations annually instead of each academic term.

ACCOUNTS RECEIVABLE [7]

Billings for services rendered were not always timely invoiced. A review of 15 invoices from December 2003 through March 2004 disclosed that four were prepared between 42 and 561 days after the services were provided, while one invoice was prepared 67 days after services became billable.

REVOLVING FUND [8]

Salary advances were not always recovered in a timely manner. A review of 15 salary advances disclosed that two of the advances had small remaining balances and had been outstanding 274 and 519 days, respectively. In addition, it took between 68 and 186 days after issuance to recover three of the salary advances.

FIXED ASSETS [8]

Fixed asset acquisitions were not always recorded timely. A review of 16 property acquisitions from February 2003 through February 2004 disclosed that in five instances, property was recorded into the accounting records between 5 and 11 months after receipt.

FISCAL INFORMATION TECHNOLOGY [9]

Certain individuals had been assigned Oracle IDs that could have allowed them to modify production PeopleSoft data.

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.
- ▶ Fiscal information systems are adequately controlled and safeguarded, and adequate segregation of duties exists.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual (SUAM) guidelines.

SCOPE AND METHODOLOGY

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. 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 2002/03 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 2003 to March 2004. Our primary focus was on internal controls. Specifically, we reviewed and tested:

INTRODUCTION

- ▶ Procedures for receipting and storing cash, and 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.
- ▶ 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 accounting systems and related computer facilities/equipment, and administration of information technology operations.
- ▶ 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 May 12, 2004. 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.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Cash control weaknesses were found at the student records and registration office (SRO).

Safety of Funds

Ten individuals, two of whom were not associated with the cashiering function, had knowledge of the safe combination, and the combination had not been changed following the retirement of an employee with knowledge of the present combination. In addition, the safe was small and portable and had not been anchored to the building, and the keys to the room where the safe was located were stored in an unlocked overhead desk cabinet.

Receipting of Funds

SRO cashiers shut down the automated cashiering system, CashNet, at 4:30 p.m. each day, but the office remained open until 5:00 p.m. and students could continue to make payments until then. Students making payments after 4:30 p.m. were given handwritten press-numbered receipts and the payments were receipted into the CashNet system the following morning.

We noted that inventory control was not maintained over the press-numbered receipts, and not all cashiers cross-referenced the handwritten press-numbered receipts to corresponding CashNet transactions processed the following morning.

State Administrative Manual (SAM) §8024 requires safe combinations to be known to as few persons as possible and the combination to be changed if any employee having knowledge of the combination leaves the employ of the state agency.

SAM §8025 states that, as a deterrent to burglary, state agencies will securely anchor a safe to the building and, where practical, to the building's foundation.

SAM §8020 requires an inventory control for press-numbered receipts.

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

The assistant registrar stated that she was unaware of the cashiering control requirements.

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

Recommendation 1

We recommend that the campus:

- a. Change the combination to the SRO safe and limit knowledge of the combination to as few persons as possible, consistent with operating requirements.
- b. Securely anchor the SRO safe and restrict access to the safe room by securing the keys to the room.
- c. Develop and implement inventory control for press-numbered receipts and procedures to ensure that all handwritten press-numbered receipts are cross-referenced to corresponding CashNet transactions.

Campus Response

- a. The public service supervisor contacted the safe's manufacturer and had the combination to the safe changed. Access to the safe's new combination has been limited to only those staff members who have been assigned cash handling responsibilities and their supervisors.

Timeline: Completed

- b. We will anchor the safe to the wall.

Timeline: November 30, 2004

- c. The public service supervisor has developed and is maintaining a log sheet to track each numbered receipt book as it is distributed to the public service technicians. The distributed receipt books are imprinted with a number for each receipt and then cross-referenced with the receipt number assigned by the CashNet Program.

Timeline: Completed

FEE RECONCILIATIONS

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

State University Administrative Manual (SUAM) §3825.01 requires that a reconciliation of applications for admission to fees received be prepared one month after the end of the academic term being reconciled.

The director of student financial services stated that application fees were reconciled on an annual basis, because the campus did not use a separate account for each semester, thereby making it difficult to isolate application fees to a particular semester.

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 after the end of each academic year term.

Campus Response

We concur. The student financial services office will reconcile application fees after each semester.

Timeline: January 31, 2005

ACCOUNTS RECEIVABLE

Billings to auxiliary organizations for amounts due and payable were not always timely invoiced.

A review of 15 invoices from December 2003 through March 2004 disclosed that four were prepared between 42 and 561 days after the services were provided. In addition, one invoice was prepared 67 days after services became billable. The late invoices were to the California State University, Chico Research Foundation.

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

The director of accounting operations/controller stated that the late billings were the result of responsible departments not forwarding required information to accounts receivable in a timely manner.

Failure to timely invoice 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 billings for services rendered are both timely received from departments and timely invoiced to the users of services.

Campus Response

We concur. The reimbursed activities staff person will work diligently to remind campus departments that billings must be submitted to the accounting office on a timely basis.

Timeline: January 31, 2005

REVOLVING FUND

Salary advances were not always recovered in a timely manner.

Our review of 15 salary advances disclosed that two of the advances had small remaining balances and had been outstanding 274 and 519 days, respectively. In addition, it took between 68 and 186 days after issuance to recover three of the salary advances.

SUAM §3813 requires prompt clearance of salary advances. Generally, the time period for recovery of salary advances should not exceed 60 days.

The director of payroll, benefits and system support services stated that one of the outstanding balances was an oversight and the other was in dispute. She also stated that two of the untimely cleared advances were due to delays with the State Controller's Office in issuing checks to clear the advances, while the other one was difficult to collect because the employee had direct payroll deposit.

Insufficient control over salary advances increases the risk that revolving fund monies are not available and reduces the likelihood of collection.

Recommendation 4

We recommend that the campus strengthen controls over the recovery of salary advances.

Campus Response

We concur. The accounting office will, upon reconciliation of the revolving fund, review the aging of the salary advances and work with the payroll office to expedite their recovery.

Timeline: Completed

FIXED ASSETS

Fixed asset acquisitions were not always recorded timely.

Our review of 16 property acquisitions from February 2003 through February 2004 disclosed that in five instances, property was recorded into the accounting records between 5 and 11 months after receipt.

SAM §8650 requires departments to record specific property information when property is acquired. In addition, departments will keep track of state property, whether capitalized or not, in an automated property accounting system.

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

The director of financial reporting and property stated that, in five instances, the property office overlooked the items, because the staff was not aware of all PeopleSoft accounts that included property acquisitions. She added that in one instance, the property was acquired during a busy period for the department; therefore, recording the acquisition in the accounting records was given a low priority.

Delays in recording fixed asset acquisitions increase the risk of misstated property records and theft or loss of state property.

Recommendation 5

We recommend that the campus strengthen procedures to ensure that all fixed asset acquisitions are recorded in a timely manner.

Campus Response

We concur. Financial reporting and property staff have been informed of the importance of timely recording of fixed asset acquisitions. Procedures will be implemented to identify and record fixed asset additions within a timely manner.

Timeline: December 31, 2004

FISCAL INFORMATION TECHNOLOGY

Certain individuals had been assigned Oracle IDs that could have allowed them to modify production PeopleSoft data.

SAM §4842.2 states that appropriate risk management procedures should be implemented to safeguard the integrity of data files, which includes effective account management. Effective account management is considered to include an appropriate authorization and monitoring of accounts that have access to production data files.

The director of business and finance technologies stated that guidelines had not yet been established for monitoring the use of production Oracle accounts.

Inadequate control over the use and monitoring of accounts with access to production data increases the risk of unauthorized and undetected modification of production data.

Recommendation 6

We recommend that the campus implement a process for authorizing and monitoring the use of IDs with access to production data to ensure that all such access is authorized.

Campus Response

The associate vice president for financial services, or designee, will approve all requests that require direct updating of the PeopleSoft financial data. Requests from financial services personnel will be sent via email to the approving authority and, if approved, forwarded to business and finance technology staff for action. Emails will be kept for review.

Timeline: Completed

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Paul J. Zingg	President
Brenda Aden	Vice Provost for Human Resources
Miles Allen	Director of Business and Finance Technologies
Andi Beach	Director of Payroll, Benefits and System Support Services
Jan Burnham	Director, Student Financial Services
Dick Chamberlain	Cashiering Supervisor
Cindy Cleland	Director of Accounting Operations/Controller
Denise Gavello	Accounting Technician
Debbie Gott	Pharmacist in Charge
Dennis Graham	Vice President for Business and Finance
Patricia Heath	Administrative Support Assistant
Kathi Hiatt	Assistant Registrar
Matt Horn	Accountant
Jean Irving	Assistant Registrar
Bill Jones	Director, Internal Audits/Financial Analyst
Michelle Korte	Director, Financial Reporting and Property
Debra McElroberts	Director, Computing Services
Doreen Mendes	Accounting Technician
Stephanie Neuhart	Supervising Payroll Technician
Ria Pope	Administrative Analyst
Mario Sagas	Accountant
Patti Salomon	Financial Reporting Analyst
Sondra Sample	Supervisor, Accounts Payable
Jason Smock	Property Clerk II
George Wellman	Associate Vice President for Financial Services
Paula Woods	Public Service Supervisor
Stephanie Yule	Director of Risk Management and Business Services

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the California State University 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 that 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 recordkeeping 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.

California State University, Chico
Chico, California 95929-0025
Vice President for Business and Finance
Office: 530-898-6231 Fax: 530-898-4513
E-mail: dcgraham@csuchico.edu



November 3, 2004

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4210



Dear Mr. Mandel:

Enclosed are CSU, Chico's responses to the FISMA Audit Report 04-03. If you have any questions, please do not hesitate to contact us.

If you have any questions, please do not hesitate to give us a call.

Sincerely,

A handwritten signature in black ink that reads "Dennis C. Graham".

Dennis C. Graham
Vice President for Business and Finance

cc: Paul Zingg
George Wellman
Bill Jones
Michelle Korte
Jan Burnham

FISMA**CALIFORNIA STATE UNIVERSITY,
CHICO****Report Number 04-03****CASH RECEIPTS****SATELLITE CASHIERING****Recommendation 1**

We recommend that the campus:

- a. Change the combination to the SRO safe and limit knowledge of the combination to as few persons as possible, consistent with operating requirements.
- b. Securely anchor the SRO safe and restrict access to the safe room by securing the keys to the room.
- c. Develop and implement inventory control for press-numbered receipts and procedures to ensure that all handwritten press-numbered receipts are cross-referenced to corresponding CashNet transactions.

Campus Response

- a. The Public Service Supervisor contacted the safe's manufacturer and had the combination to the safe changed. Access to the safe's new combination has been limited to only those staff members who have been assigned cash handling responsibilities and their supervisors.

Timeline: Completed

- b. We will anchor the safe to the wall.

Timeline: November 30, 2004

- c. The Public Service supervisor has developed and is maintaining a log sheet to track each numbered receipt book as it is distributed to the Public Service Techs. The distributed receipt books are imprinted with a number for each receipt and then cross referenced with the receipt number assigned by the CashNet Program.

Timeline: Completed

FEE RECONCILIATIONS

Recommendation 2

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

Campus Response

We concur. The Student Financial Services Office will reconcile application fees after each semester.

Timeline: January 31, 2005

ACCOUNTS RECEIVABLE

Recommendation 3

We recommend that the campus strengthen procedures to ensure that billings for services rendered are both timely received from departments and timely invoiced to the users of services.

Campus Response

We concur. The Reimbursed Activities staff person will work diligently to remind campus departments that billings must be submitted to the Accounting Office on a timely basis.

Timeline: January 31, 2005

REVOLVING FUND

Recommendation 4

We recommend that the campus strengthen controls over the recovery of salary advances.

Campus Response

We concur. The Accounting Office will, upon reconciliation of the Revolving Fund, review the aging of the Salary Advances and work with the Payroll Office to expedite their recovery.

Timeline: Completed

FIXED ASSETS**Recommendation 5**

We recommend that the campus strengthen procedures to ensure that all fixed asset acquisitions are recorded in a timely manner.

Campus Response

We concur. Financial Reporting & Property staff have been informed of the importance of timely recording of fixed asset acquisitions. Procedures will be implemented to identify and record fixed asset additions within a timely manner. Estimated date of completion is December 31, 2004.

Timeline: December 31, 2004

FISCAL INFORMATION TECHNOLOGY**Recommendation 6**

We recommend that the campus implement a process for authorizing and monitoring the use of IDs with access to production data to ensure that all such access is authorized.

Campus Response

The Associate Vice President for Financial Services, or designee, will approve all requests that require direct updating of the PS Financial data. Requests from Financial Services personnel will be sent via email to the approving authority, and if approved forwarded to Business & Finance Technology staff for action. Emails will be kept for review.

Timeline: Completed

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

YAKERSFIELD

CHANNEL ISLANDS

November 30, 2004

CHICO

DOMINGUEZ HILLS

MEMORANDUM

FRESNO

FULLERTON

TO: Mr. Larry Mandel
University Auditor

HAYWARD

HUMBOLDT

FROM: Charles B. Reed
Chancellor

LONG BEACH

SUBJECT: Draft Final Report Number 04-03 on *FISMA*,
California State University, Chico

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of November 30, 2004, I accept the response
as submitted with the draft final report on *FISMA*, California State University,
Chico.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/al

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Mr. Dennis C. Graham, Vice President for Business and Finance
Dr. Paul J. Zingg, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS