

FISMA

**CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY**

**Report Number 05-06
July 28, 2006**

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ABBREVIATIONS

CSC	Campus Service Center
CSU	California State University
CSUMB	California State University, Monterey Bay
FISMA	Financial Integrity and State Manager's Accountability Act
FTB	Franchise Tax Board
HR	Human Resources
IAIRS	Intercollegiate Athletics, Intramurals and Recreational Sports
MCO	Main Cashiering Office
SAM	State Administrative Manual
SCO	State Controller's Office
SUAM	State University Administrative Manual
TEC	Travel Expense Claim(s)

EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) of 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 *International 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, Monterey Bay (CSUMB) 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.

We visited the CSUMB campus from February 6, 2006, through March 30, 2006, and made a study and evaluation of the accounting and administrative control in effect as of March 30, 2006. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivables, purchasing, revolving fund, and payroll and personnel. 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, CSUMB's accounting and administrative control in effect as of March 30, 2006, 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 changes 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 [6]

Cash control weaknesses were found at the main cashiering office (MCO) and two of the three satellite cashiering areas visited. Press-numbered receipts were not adequately controlled at the MCO and the intercollegiate athletics, intramurals and recreational sports department, and the person responsible for opening incoming mail at the campus service center did not prepare a prelisting of cash received in the mail. Further, gym membership cards lacked authenticity and were not adequately controlled.

ACCOUNTS RECEIVABLE [8]

Pursuit of delinquent third-party, student, and payroll accounts receivable did not ensure timely collection and was not always adequately documented. A series of three collection letters, e-mails, and/or telephone calls had not been sent/made at 30-day intervals for six of nine third-party receivables reviewed. Follow-up collection correspondence between the CSUMB staff and third-party vendors did not reference the original request, were not stated in a stronger tone, and did not address further action, which might be taken in the collection process. Sufficient documentation to support collection efforts made via telephone for third-party accounts was not on file, and CSUMB third-party accounts receivable procedures did not adequately address the collection process after the 90-day letter. In addition, adequate and timely collection activities had not been conducted for four of the ten student receivables reviewed. Further, a review of 20 payroll accounts receivable disclosed that collection letters were inconsistently and untimely distributed for 15 of the 20 payroll receivables reviewed.

PURCHASING [10]

Campus procurement card controls did not ensure that purchases were within cardholder purchase limits. A review of procurement card statements for nine individuals disclosed that on five occasions, multiple purchases from a single vendor were recorded on the same date for one cardholder.

REVOLVING FUND [11]

Travel and salary advances were not always recovered in a timely manner. Travel advances with travel end dates from September 16, 2004, to October 21, 2005, had not been cleared as of February 2006 for 10 of the 15 advances reviewed. In addition, seven of ten salary advances reviewed were not recovered in a timely manner and lacked documented follow-up and/or evidence of collection activity.

PAYROLL AND PERSONNEL [12]

The delegation of authority on file with the State Controller's Office (SCO) to authorize personnel and payroll transactions was not kept current. The most current security authorization form was dated June 10, 2005, and included two separated employees. Employee separation procedures did not ensure complete clearance documentation. This is a repeat finding from the previous FISMA audit. In addition, undelivered salary warrants were not properly controlled and remitted to the SCO for final escheatment, and employee vacation leave accruals were not always adjusted to adhere to maximum vacation leave accumulation specified in collective bargaining agreements.

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 guidelines.

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International 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 2004/05 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 2004 to December 2005. Our primary focus was on internal controls. Specifically, we reviewed and tested:

INTRODUCTION

- ▶ 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.
- ▶ 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 March 30, 2006. 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

Cash control weaknesses were found at the main cashiering office (MCO) and two of the three satellite cashiering areas visited.

The satellite cashiering locations reviewed included the campus service center (CSC), student accounts receivable, and the intercollegiate athletics, intramurals and recreational sports (IAIRS) department.

Press-Numbered Receipts

Press-numbered receipts were not adequately controlled.

We found that:

- ▶ The MCO did not obtain recipient signatures when press-numbered receipt books were checked-out to satellite cashiering locations to document the transfer of accountability and custody.
- ▶ The IAIRS department did not issue press-numbered receipts in sequential order and maintain inventory control over press-numbered receipts. We found that at least six different receipt books were in circulation.

State Administrative Manual (SAM) §8020 states that an inventory control will be kept for press-numbered receipts.

The manager of cashiering and student accounting services stated that staff was unaware of the SAM requirement.

Accountability

The person responsible for opening incoming mail at the CSC did not prepare a prelisting of cash received in the mail.

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

The customer service specialist stated that the instance identified was attributed to a new employee who had not been properly trained to handle cash received in the mail.

Gym Membership Cards

Gym membership cards lacked authenticity and were not adequately controlled.

Gym membership cards contained neither a picture ID nor a sequential numbering system, limiting both entry restrictions and revenue accountability. For example, this resulted in the inability to reconcile membership sales to receipts and revenue recorded in the general ledger.

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 IAIRS director stated that controls surrounding gym membership IDs and revenue accountability had not been augmented as use of the athletic facilities increased over time.

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

Recommendation 1

We recommend that the campus:

- a. Require recipient signatures when the MCO issues press-numbered receipt books to satellite cashiering locations and strengthen controls over the use of press-numbered receipts at IAIRS, including inventory control.
- b. Establish procedures to prepare a prelisting of cash received in the mail by the CSC.
- c. Create a unique (i.e., pre-numbered, picture ID, etc.) gym membership card and establish procedures to reconcile gym membership sales to receipts and revenue recorded in the general ledger, as well as to the number of membership cards issued.

Campus Response

We agree in principle. California State University, Monterey Bay (CSUMB) will strengthen controls over the indicated areas of cash receipts. However, in strengthening controls over gym revenues, CSUMB has determined that membership cards as recommended would not be an effective control. Instead, a low-cost scanning system will be implemented. We anticipate implementation of the recommendation by September 15, 2006.

ACCOUNTS RECEIVABLE

Pursuit of delinquent third-party, student, and payroll accounts receivable did not ensure timely collection and was not always adequately documented.

Third-Party and Student Receivables

Our review of nine third-party and ten student accounts receivable as of December 31, 2005, and campus collection procedures disclosed that:

- ▶ A series of three collection letters, e-mails, and/or telephone calls had not been sent/made at 30-day intervals for six of nine third-party receivables reviewed.
- ▶ Follow-up collection correspondence (i.e., e-mail, letters, etc.) between the CSUMB staff and third-party vendors did not reference the original request, were not stated in a stronger tone, and did not address further action, which might be taken in the collection process.
- ▶ The goal of the collection department was to follow-up on delinquent third-party accounts via telephone; however, sufficient documentation to support collection efforts made via telephone was not on file.
- ▶ CSUMB third-party accounts receivable procedures did not adequately address the collection process after the 90-day letter was sent to the vendor and collection efforts had been exhausted.
- ▶ Further action was not taken on an account that was not collected within 90 days. It was noted that the CSUMB had recently established procedures to submit third-party vendors to the Franchise Tax Board (FTB) for tax offset, but no evidence or documented procedures were on hand to confirm this action.
- ▶ Adequate and timely collection activities had not been conducted for four of the ten student receivables reviewed. As a result, the receivables could not be submitted to the FTB.

State University Administrative Manual (SUAM) §3822 requires each campus to establish procedures that provide for prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls, and utilization of the offset claim procedures for accounts greater than \$10.

SAM §8776.6 states that once the address of the debtor is known, the accounting office will send a sequence of three collection letters at 30-day intervals. 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 third letter will be sent 30 days later. This last letter will include references to prior letters and will state what further actions may be taken in the collection process.

SAM §8790.3 states that offset is normally made only after giving notice to the debtor and providing him/her an opportunity to present any valid objection he/she may have to the use of the offset procedure.

The director of accounting stated that campus procedures were being followed; however, the procedures, while effective, did not fully address SAM requirements.

Payroll Receivables

Our review of 20 payroll accounts receivable established between January 2003 and August 2005 disclosed that collection letters were inconsistently and untimely distributed for 15 of the 20 payroll receivables reviewed. In addition, insufficient collection activity prevented submission of these accounts balances to the FTB for tax offset.

Government Code §19838 requires reimbursement to the state of overpayments made to employees. Employee overpayments can arise from Office Revolving Fund salary and travel advances and payroll warrants issued by the State Controller's Office (SCO).

SAM §8776.6 and §8776.7 provide collection procedures to be employed in the collection of amounts due from employees.

SAM §8790.3 states that offset is normally made only after giving notice to the debtor and providing him/her an opportunity to present any valid objection he/she may have to the use of the offset procedure.

The director of accounting stated that payroll receivables were not being properly handled due to staff turnover.

Inadequate control over delinquent accounts receivable reduces the likelihood of collection, increases the amount of resources expended on collection efforts, and negatively impacts cash flow.

Recommendation 2

We recommend that the campus:

- a. Strengthen procedures to ensure that delinquent accounts receivable are promptly pursued for collection or tax offset.
- b. Enforce the use of three progressive collection letters sent at 30-day intervals.
- c. Develop and implement written standards for the documentation of collection efforts made via telephone.

- d. Revise collection procedures to adequately address the collection process after the 90-day letter is sent and other collection efforts have been exhausted, including documentation of procedures for tax offset.

Campus Response

We concur. The campus will develop and implement procedures to ensure that accounts receivable are handled in accordance with SAM. We anticipate implementing the recommendation by November 15, 2006.

PURCHASING

Campus procurement card controls did not ensure that purchases were within cardholder purchase limits.

Our review of procurement card statements for October and November 2005 for nine individuals disclosed that on five occasions, multiple purchases from a single vendor were recorded on the same date for one cardholder. The combined daily transaction totals ranged from \$205 to \$553 above the cardholder's single purchase limit of \$1,500. This is a repeat finding from our prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

The CSUMB *Procurement Card Handbook* indicates that:

- ▶ The procurement card is a method of payment for purchases costing less than \$1,000 (under *General Information*).
- ▶ Prohibited uses include splitting of purchases to circumvent the transaction dollar limit (under *Prohibited Uses*).

The purchasing buyer stated that the cardholder's limit was too low to avoid exceeding the single transaction limit.

Failure to adhere to campus procurement card procedures and guidelines increases the risk of loss from inappropriate acts.

Recommendation 3

We recommend that the campus strengthen enforcement of procurement card purchasing limits or consider modifying limits where warranted.

Campus Response

We concur. The campus is reviewing the transactional limits to allow the most effective means of processing the transactions in question. We anticipate implementing this recommendation by September 15, 2006.

REVOLVING FUND

Travel and salary advances were not always recovered in a timely manner.

Our review of 15 travel advances and 10 salary advances issued between July 2004 and December 2005 disclosed that:

- ▶ Travel advances with travel end dates from September 16, 2004, to October 21, 2005, had not been cleared as of February 2006 for 10 of the 15 advances reviewed. Travel expense claims (TEC) submitted to substantiate the other five travel advances were not completed within 60 days for two of the TEC. These two TEC were submitted 116 and 162 days after the employees' travel end date.
- ▶ Seven of ten salary advances reviewed were not recovered in a timely manner and lacked documented follow-up and/or evidence of collection activity. Six were recovered from 138 to 575 days after the advance was granted, while the seventh, dated September 2, 2004, was still outstanding as of February 2006.

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.

California State University (CSU) directive HR 2005-49, *CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement*, dated December 16, 2005, states, in part, that the TEC must be submitted within a reasonable period of time not to exceed 60 days.

SUAM §3813 states that advances to employees should be collected when the corrected or delayed warrant for the pay period involved is received. Generally, the time period for recovery of salary advances should not exceed 60 days. When salary advances due the state are not recoverable from the employee after a 120-day period, action to write-off the account should be taken. Simultaneously, action should be initiated to utilize the tax offset process when the amount due the state is in excess of \$50, or less if the campus wishes to establish a lower level.

The general accounting manager stated that the travel coordinator was unable to effectively manage his time to ensure timely recovery of outstanding advances. He further stated that salary advances were not being properly handled due to staff turnover.

Insufficient control over travel expenses increases the risk that revolving fund monies may be expended for inappropriate purposes.

Recommendation 4

We recommend that the campus strengthen controls to improve the timely recovery of travel and salary advances.

Campus Response

We concur. Additional emphasis has been placed on monitoring travel and salary advances. At this time, there are no outstanding travel advance claims outstanding greater than 30 days. We anticipate fully implementing the recommendation by October 15, 2006.

PAYROLL AND PERSONNEL

AUTHORIZATION OF PERSONNEL/PAYROLL TRANSACTIONS

The delegation of authority on file with the SCO to authorize personnel and payroll transactions was not kept current.

Our review of the most current security authorization form (PSD125A) dated June 10, 2005, listed two separated employees. These two employees separated in October 2005 and January 2006.

The SCO, Personnel/Payroll Services Division *Decentralization Security Program* states that to prevent unauthorized use of a transferred, terminated, or resigned employee's user ID, it is required that the security monitor immediately submit a PSD125A to delete his or her system access. Do not wait until another employee fills this position; this only increases the chances for breach of security, utilizing an old user ID.

The payroll manager stated that this was an oversight and that the PSD125A form was not updated at the same time the Personnel/Payroll Management Information System security tokens were turned in by the departing payroll technicians.

Failure to maintain current security authorization forms increases the risk of inappropriate or unauthorized transactions.

Recommendation 5

We recommend that the campus strengthen controls to ensure that the delegation of authority on file with the SCO remains current.

Campus Response

We concur. The campus will strengthen controls to ensure the PSD125A form is updated on a timely basis. We anticipate implementing the recommendation by September 15, 2006.

EMPLOYEE SEPARATION

Employee separation procedures did not ensure complete clearance documentation. This is a repeat finding from the prior FISMA audit.

Our review of eight employee separations dated between July 2004 and December 2005 that required clearance documentation disclosed that:

- ▶ In eight instances, a campus clearance e-mail was not on file from the CSC (i.e., parking permit, CSUMB ID, etc.).
- ▶ In six instances, a campus clearance e-mail was not on file for academic technology and media services (i.e., laptops, cameras, etc.).
- ▶ In five instances, a campus clearance e-mail was not on file from the finance department (i.e., travel advance, payroll advance, moving expense reimbursement, etc.).
- ▶ In five instances, a campus clearance e-mail was not on file from the employees' department/manager (i.e., absence report, resignation form, office equipment, cell phones, pagers, etc.).
- ▶ In four instances, a campus clearance e-mail was not obtained from the library learning complex (i.e., books, tapes, videos, etc.).
- ▶ In two instances, a campus clearance e-mail was not on file from the locksmith (i.e., keys, access card deactivation, etc.).

CSUMB *University Human Resources Clearance Procedures* requires the receipt of proper clearance notification via e-mail from each department within the university clearance workgroup prior to the employee's last workday.

SAM §8580.4 describes the need for adequate separation procedures, including preparation of a clearance form that includes clearance of revolving fund advances (travel and salary), return of keys, equipment, credit cards, etc.

The payroll manager stated that the university clearance workgroup did not fully recognize the importance of providing a clearance notification.

Insufficient control over employee separations increases the risk of loss of state funds and inappropriate use of state resources.

Recommendation 6

We recommend that the campus strengthen employee separation procedures to ensure complete clearance documentation.

Campus Response

We concur. The campus will strengthen controls to ensure separation clearance documentation is completed and maintained on file. We anticipate implementing the recommendation by November 15, 2006.

UNDELIVERED WARRANTS

Undelivered salary warrants were not properly controlled and remitted to the SCO for final escheatment.

We interviewed five salary warrant representatives and the payroll manager, and noted that:

- ▶ A salary warrant dated November 2, 2005, was outstanding 125 days and had not been remitted to the SCO as of the date of our review in February 2006.
- ▶ Warrants not delivered to employees within five days of receipt were not returned to the CSC for disposition.
- ▶ The CSC and the payroll department lacked written records of undelivered warrants.
- ▶ Procedures were not in place to deposit and remit undelivered warrants greater than 90 days to the SCO escheat account.

SAM §8580.5 states that salary warrants not delivered within five days of pickup shall be returned to the office which distributes salary warrants. A written record of all undelivered warrants will be maintained and a copy given to the payroll office. 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. Agencies will maintain a subsidiary ledger of all amounts credited to and disbursed from the escheat revenue accounts. Subsequent claims made by payees within two years of the date the warrant was credited to the escheat revenue account will be processed by filing a claim schedule against an escheat revenue account. For those amounts credited in the current fiscal year, the claim schedule shall be filed against the current year escheat revenue account.

The director of accounting stated that the SAM requirements had not been communicated to the warrant representatives.

Untimely remittance of undelivered warrants increases the risk of misappropriated funds.

Recommendation 7

We recommend that the campus develop and implement procedures to ensure that undelivered salary warrants are properly handled and remitted to the SCO when required.

Campus Response

We concur. The campus will develop procedures to ensure that undelivered salary warrants are handled in accordance with SAM. We anticipate implementing the recommendation by September 25, 2006.

VACATION ACCRUAL

Employee vacation leave accruals were not always adjusted to adhere to maximum vacation leave accumulation specified in collective bargaining agreements.

Our review of 20 employee year-end vacation leave accruals disclosed that, in four instances where the accrual exceeded the employees' maximum accumulation specified in the collective bargaining agreements, the employees' hours were not adjusted to adhere to the maximums.

CSU Collective Bargaining Agreements state that accumulation in excess of specified amounts as of January 1 of each year shall be forfeited by the employee.

The payroll manager stated that adjustments were delayed as part of a process improvement review.

Unadjusted accrued vacation may under or over compensate employees and expose the campus to increased liability.

Recommendation 8

We recommend that the campus strengthen controls over the year-end adjustment of employee accrued vacation balances to ensure that employee accruals are properly adjusted.

Campus Response

We concur. The campus will strengthen controls to ensure that the year-end vacation accrual is properly adjusted. We anticipate implementing the recommendation by September 15, 2006.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Dianne F. Harrison	President
Diane Cordero de Noriega	Interim President (At time of review)
LaDonna Andrews	Accounting Technician II, Accounts Receivable
Deanna Aromin	Accounts Payable Technician, Accounting Department
Terryn Ashley	Payroll Technician, University Human Resources
George Ball	Property Coordinator, Fixed Assets Department
Ken Burton	Director, Information Systems
Marie Camacho	Accounting Technician III, Accounts Receivable
Corey Castaneda	Accounting Technician III, Accounts Payable
Ann Castle	Buyer, Purchasing
Sandra Chapa	Accounting Technician III, Cashiering
John Fitzgibbon	Associate Vice President, Administration and Finance
Veronica Flores	Manager, Campus Service Center (CSC) and Quality Improvement
Christine Frederick	Manager, Cashiering and Student Accounting Services
Gretchen Fuentes	Manager, Benefits, Systems and Professional Development
Paul Hall	Network Operations Analyst
Julia Hubbard	Accounting Technician, Intercollegiate Athletics, Intramurals and Recreational Sports (IAIRS)
Dan Johnson	Vice President, Administration and Finance
Dino Latino	Manager, Risk Management/Emergency Preparedness
Maria Magallan	Cashier
Susan McFarlane	Manager, Finance Information Services
Tony McFarlane	General Accounting Manager, Accounting Department
William Musselman	Director of Accounting, Administration and Finance
Abe Pedroza	Buyer, Purchasing
Cathy Rank	Director, Budgeting
Marlene Sabanal	Accounts Payable Technician, Accounting Department
Wesley Scheibly	Payroll Manager, University Human Resources
Terry Simon	Customer Service Specialist, CSC
Joyce Stine	Administrative Support Coordinator, Accounting Department
Chris Taylor	Executive Director, Collaborative Technology Initiatives
William Trumbo	Director, IAIRS
Toni Uribe	Customer Service Specialist, CSC
Sherrie Vignau	Assistant Women's Water Polo Coach
Michele (Barbara) Zollna	General Ledger Accountant, Administration and Finance

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.

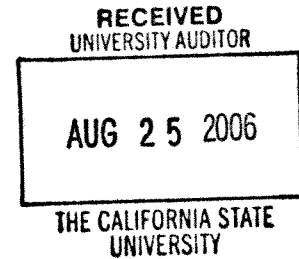
D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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 MONTEREY BAY

100 Campus Center Seaside, California 93955-8001
Accounting Department



August 23, 2006

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

Subject: FISMA Audit Report No. 05-06

Dear Larry:

In response to the recommendations forwarded to President Harrison on August 1, 2006 pursuant to the subject report, I am attaching the campus response to those recommendations. Please contact me if you have any questions regarding this submittal.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Johnson".

Dan Johnson
Vice President for Administration & Finance

Attachment

cc: President Harrison
AVP Fitzgibbon

FISMA

**CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY**

**Report Number 05-06
July 28, 2006**

CASH RECEIPTS

Recommendation 1

We recommend that the campus:

- a. Require recipient signatures when the MCO issues press-numbered receipt books to satellite cashiering locations and strengthen controls over the use of press-numbered receipts at IAIRS, including inventory control.
- b. Establish procedures to prepare a prelisting of cash received in the mail by the CSC.
- c. Create a unique (i.e., pre-numbered, picture ID, etc.) gym membership card and establish procedures to reconcile gym membership sales to receipts and revenue recorded in the general ledger, as well as to the number of membership cards issued.

Campus Response

We agree in principle. CSUMB will strengthen controls over the indicated areas of cash receipts. However, in strengthening controls over gym revenues, CSUMB has determined that membership cards as recommended would not be an effective control. Instead, a low cost scanning system will be implemented. We anticipate implementation of these recommendations by September 15, 2006.

ACCOUNTS RECEIVABLE

Recommendation 2

We recommend that the campus:

- a. Strengthen procedures to ensure that delinquent accounts receivable are promptly pursued for collection or tax offset.
- b. Enforce the use of three progressive collection letters sent at 30-day intervals.
- c. Develop and implement written standards for the documentation of collection efforts made via telephone.

- d. Revise collection procedures to adequately address the collection process after the 90-day letter is sent and other collection efforts have been exhausted, including documentation of procedures for tax offset.

Campus Response

We concur. The campus will develop and implement procedures to ensure that accounts receivable are handled in accordance with the SAM. We anticipate implementing these recommendations by November 15, 2006.

PURCHASING

Recommendation 3

We recommend that the campus strengthen enforcement of procurement card purchasing limits or consider modifying limits where warranted.

Campus Response

We concur. The Campus is reviewing the transactional limits to allow the most effective means of processing the transactions in question. We anticipate implementing this recommendation by September 15, 2006.

REVOLVING FUND

Recommendation 4

We recommend that the campus strengthen controls to improve the timely recovery of travel and salary advances.

Campus Response

We concur. Additional emphasis has been placed on monitoring travel and salary advances. At this time, there are no outstanding travel advance claims outstanding greater than 30 days. We anticipate fully implementing the recommendation by October 15, 2006.

PAYROLL AND PERSONNEL

AUTHORIZATION OF PERSONNEL/PAYROLL TRANSACTIONS

Recommendation 5

We recommend that the campus strengthen controls to ensure that the delegation of authority on file with the SCO remains current.

Campus Response

We concur. The campus will strengthen controls to ensure the PSD125A form is updated on a timely basis. We anticipate implementing the recommendation by September 15, 2006.

EMPLOYEE SEPARATION

Recommendation 6

We recommend that the campus strengthen employee separation procedures to ensure complete clearance documentation.

Campus Response

We concur. The campus will strengthen controls to ensure separation clearance documentation is completed and maintained on file. We anticipate implementing the recommendation by November 15, 2006.

UNDELIVERED WARRANTS

Recommendation 7

We recommend that the campus develop and implement procedures to ensure that undelivered salary warrants are properly handled and remitted to the SCO when required.

Campus Response

We concur. The campus will develop procedures to ensure that undelivered salary warrants are handled in accordance with SAM. We anticipate implementing the recommendation by September 25, 2006.

VACATION ACCRUAL

Recommendation 8

We recommend that the campus strengthen controls over the year-end adjustment of employee accrued vacation balances to ensure that employee accruals are properly adjusted.

Campus Response

We concur. The campus will strengthen controls to ensure that the year-end vacation accrual is properly adjusted. We anticipate implementing the recommendation by September 15, 2006.


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

August 31, 2006

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

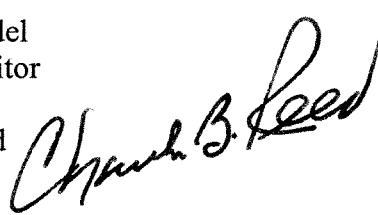
EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 05-06 on *FISMA*,
California State University, Monterey Bay

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of August 31, 2006, I accept the response as submitted with the draft final report on *FISMA*, California State University, Monterey Bay.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Dianne F. Harrison, President
Mr. Dan Johnson, Vice President, Administration and Finance

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS