

FISMA

**CALIFORNIA STATE UNIVERSITY,
SAN MARCOS**

**Report Number 06-06
November 1, 2006**

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ABBREVIATIONS

CSU	California State University
CSUSM	California State University, San Marcos
FISMA	Financial Integrity and State Manager's Accountability Act
PTS	Parking and Transportation Services
SAM	State Administrative Manual
SHCS	Student Health and Counseling Services
SUAM	State University Administrative Manual

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, San Marcos (CSUSM) 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 CSUSM campus from May 1, 2006, through July 23, 2006, and made a study and evaluation of the accounting and administrative control in effect as of July 23, 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 receivable, purchasing, payroll and personnel, fixed assets, fiscal information technology, trust funds, and PeopleSoft implementation. 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, CSUSM's accounting and administrative control in effect as of July 23, 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]

Reconciliations were not always complete. At student health and counseling services, although reconciliations of cash receipts to the general ledger were performed, the format was informal and did not include signatures of the preparer and reviewer and the dates prepared and reviewed. At parking and transportation services, reconciliations of cash receipts to the general ledger and parking permit inventory were not signed and dated by the preparer and reviewer.

ACCOUNTS RECEIVABLE [7]

Pursuit of delinquent non-student accounts receivable did not ensure timely collection. A review of 12 delinquent accounts disclosed that a series of three collection letters was not issued in five instances. Further review showed that collection letters had not been prepared for the period July 1, 2005, to April 11, 2006, for any non-student receivables.

PURCHASING [8]

Campus procurement card policy and procedures were not adequately enforced. A review of 21 procurement card statements between December 2005 and January 2006 disclosed that some bank statement packets were approved by an individual other than the designated approving authority, untimely submitted, and/or not dated to evidence timeliness of completion; and approval for higher purchase limits was not always on file.

PAYROLL AND PERSONNEL [9]

Federal Form I-9, Employment Eligibility Verification, was not always timely completed, and personnel transaction forms were not always properly approved. A review of 12 new hires disclosed that in two instances, the Form I-9 was not completed within three business days, but 14 and 16 days after employment began. In addition, 5 of 13 personnel transaction forms for salary changes were not approved by a human resources approving authority.

FIXED ASSETS [10]

Although the campus was maintaining a database for laptop assignments to faculty and staff, home use permits were not utilized to document the employee's acceptance of responsibility for the campus equipment.

FISCAL INFORMATION TECHNOLOGY [11]

Non-essential personnel had access to the computer room.

TRUST FUNDS [12]

Certain trust projects had negative cash balances. A review of trust account balances as of June 30, 2005, disclosed that six trust projects had negative cash balances ranging from \$17 to \$87,969. In addition, trust fund administration required improvement. A review of 11 trust fund agreements disclosed that an authorized signatory, specimen signatures of authorized signatories, time constraints, reporting requirements, and/or budget director approval were not always included. The lack of reporting requirements and budget office approval were reported in the prior FISMA audit. Lastly, trust fund expenditures were not always properly approved. A review of 23 trust fund expenditures disclosed that nine expenditures had not been approved by an individual who was an authorized signatory per the corresponding trust agreement.

PEOPLESOFT IMPLEMENTATION [14]

Fixed asset reconciliations were not timely prepared. This is a repeat finding from the prior FISMA audit. The last three fixed asset reconciliations completed were for the months of April, May, and June of 2005. Further, property acquisitions and disposals were not always timely recorded into the accounting records. This is a repeat finding from the prior FISMA audit for property acquisitions. In eight instances, property was recorded into the accounting records between 107 and 387 days after receipt, while in six instances, property disposals were recorded into the accounting records 128 to 273 days after the disposal.

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 March 2006. 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 July 23, 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

Reconciliations were not always complete at student health and counseling services (SHCS) and parking and transportation services (PTS).

We found that:

- ▶ At SHCS, although reconciliations of cash receipts to the general ledger were performed, the format was informal and did not include signatures of the preparer and reviewer and the dates prepared and reviewed to provide accountability and evidence of the timeliness of completion.
- ▶ At PTS, reconciliations of cash receipts to the general ledger and parking permit inventory were not signed and dated by the preparer and reviewer to provide accountability and evidence of the timeliness of completion.

State Administrative Manual (SAM) §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications and requires monthly preparation of all reconciliations within 30 days of the preceding month.

SAM §7908 requires that all reconciliations will show the preparer's name, reviewer's name, date prepared, and date reviewed.

SAM §7920 states that each agency is responsible for completing any reconciliation necessary to safeguard assets and ensure reliable financial data.

The SHCS business manager stated that she was unaware of the requirements of a formal reconciliation. The director of campus enterprises stated that the lack of dates and signatures on the PTS reconciliations was due to a change in personnel.

Failure to prepare reconciliations in a complete manner increases the risk that errors and irregularities will not be detected and compromises accountability.

Recommendation 1

We recommend that the campus strengthen procedures to ensure that reconciliations are formalized, signed and dated by the preparer and reviewer.

Campus Response

We concur. The campus' accounting services staff met with the satellite cashiering locations and developed reconciliation forms to include the signatures of the preparer and reviewer with dates.

A university cashier has been assigned the responsibility of auditing these reconciliation forms on a regular basis.

Anticipated completion date: April 30, 2007

ACCOUNTS RECEIVABLE

Collection letters were not consistently employed in the pursuit of delinquent accounts receivable.

Our review of 12 delinquent non-student receivables outstanding as of March 2006 disclosed that a series of three collection letters was not issued in five instances. Further review showed that collection letters had not been prepared for any non-student receivables for the period July 1, 2005, to April 11, 2006.

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.

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.

The interim director of student financial services stated that the failure to use collection letters was due to changes in personnel.

Less than maximum effort in the pursuit of 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 strengthen procedures to ensure that non-student accounts receivable are promptly pursued for collection, including the use of a series of three collection letters sent at 30-day intervals in a progressively stronger tone.

Campus Response

We concur. The campus has automated the collection letter series process for non-student accounts receivable. In addition, the campus will develop a written procedure to include samples of the three collection letters, position responsible for this function, a tracking method to ensure the collection letters are sent on a timely basis, monthly review of non-student accounts receivable, and action(s) to be taken if payment is not made after the third collection letter notification.

Anticipated completion date: April 30, 2007

PURCHASING

Campus procurement card policy and procedures were not always adequately enforced.

Our review of 21 procurement card statements for 11 cardholders dated between December 2005 and January 2006 disclosed that:

- ▶ Ten of 21 bank statement packets were approved by an individual other than the designated approving authority.
- ▶ Three of 21 bank statement packets were not submitted to the approving official before the 10th of the following month.
- ▶ Four of 21 bank statement packets were not dated by the cardholder and two other bank statement packets were not dated by the approving official to evidence the timeliness of the reconciliation. In addition, two bank statement packets were not reviewed and dated by the approving authority until May 2006.
- ▶ Approval was not on file for a purchase limit in excess of \$1,000 for 2 of the 11 individual cardholders reviewed.

The California State University, San Marcos (CSUSM) *Procurement Card Manual* (under *Cardholder Responsibilities*) instructs the cardholder to sign and date the bank statement packet and submit to the approving official for approval and signatures by the 10th of the next month, following the statement cycle end date. Additionally, increases to the purchase limits and/or monthly limits must be approved by the department approving official.

The director of procurement and support services stated that the lack of enforcement of the procurement policy was due to changes in personnel.

Insufficient control over procurement cards increases the risk of loss from inappropriate acts.

Recommendation 3

We recommend that the campus strengthen enforcement of its procurement card policy.

Campus Response

We concur. The campus will strengthen enforcement of its procurement card policy by scheduling more frequent audits of end-user accounts and providing additional training. The campus has a new provider with additional reporting capabilities and approving forms will be mandatory. In addition, the campus has formed a focus group charged with developing a new audit process.

Anticipated completion date: April 30, 2007

PAYROLL AND PERSONNEL

Federal Form I-9, Employment Eligibility Verification, was not always timely completed, and personnel transaction forms were not always properly approved.

Our review of 12 new hire and 13 salary change transactions disclosed that:

- ▶ In two instances, the Form I-9 was completed 14 and 16 business days after employment began and not within three business days as required.
- ▶ In five instances, personnel transaction forms for salary changes were not approved by a human resources approving authority.

The Immigration Reform and Control Act of 1986 states that all employees, citizens, and non-citizens are required to complete Form I-9, Employment Eligibility Verification, at the time of hire, which is the actual beginning of employment. The act requires employers to examine evidence of identity and employment eligibility within three business days of the date employment begins.

The State Controller's Office Personnel Letter 02-006 states that transactions that are decentrally keyed at the campus may be documented on any campus generated form or report as long as there is an authorized signature on the document. In addition, campuses are to maintain the signed copy of the document used for processing personnel/payroll transactions in the employee's file for audit purposes.

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

The associate director and benefits manager stated that the delay for the completion of the Form I-9's and the lack of approval on the personnel transaction forms were oversights.

Untimely completion of employment eligibility verification increases the risk of non-compliance with federal employment regulations, while the lack of properly approved personnel transaction forms increases the risk of inappropriate personnel transactions.

Recommendation 4

We recommend that the campus strengthen personnel procedures to ensure timely completion of Form I-9 and proper authorization of personnel transactions.

Campus Response

We concur. The campus will strengthen personnel procedures to ensure timely completion of Form I-9 and proper authorization of personnel transactions.

Anticipated completion date: April 30, 2007

FIXED ASSETS

Although the campus was maintaining a database for laptop assignments to faculty and staff, home use permits were not utilized to document the employee's acceptance of responsibility for the campus equipment.

Executive Order 649, *Safeguarding State Property*, dated February 15, 1996, delegates authority to each campus president to establish and maintain a system of internal controls to safeguard state property.

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 recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The materials management lead stated his belief that the home use permit program was decentralized and that the permits were being issued by the appropriate departments; however, this was not being done.

Failure to utilize home use permits increases the risk of unauthorized use and loss of state property.

Recommendation 5

We recommend that the campus implement the use of home use permits for off-campus use of university equipment.

Campus Response

We concur. The campus will develop a written procedure to ensure the implementation of home use permits for off-campus use of university equipment.

Anticipated completion date: April 30, 2007

FISCAL INFORMATION TECHNOLOGY

Non-essential personnel had access to the computer room.

SAM §4842.2 requires each state agency to establish and maintain physical security measures that provide for management control of physical access to information assets. Physical security practices for each facility must be adequate to protect the most sensitive information technology application housed in that facility.

The information security officer stated that persons with access were comprised of alternate staff that might be needed to access that area in the absence of the primary staff responsible for that function.

Failure to limit access to the data center to essential personnel increases the risk of accidental or malicious damage or theft to equipment and data that is essential to the continued operation of the campus.

Recommendation 6

We recommend that the campus restrict non-essential personnel from having access to the computer room.

Campus Response

We concur. The campus will implement appropriate controls to restrict non-essential personnel from having access to the computer room.

Anticipated completion date: April 30, 2007

TRUST FUNDS

TRUST BALANCES

Certain trust projects had negative cash balances.

Our review of trust account balances as of June 30, 2005, disclosed that six trust projects had negative cash balances ranging from \$17 to \$87,969.

SUAM §3710.01 states that each trust project must maintain a positive cash balance.

The interim associate vice president of finance and business services stated that the negative trust project cash balances were due to changes in personnel.

Failure to maintain positive cash balances in trust projects increases the risk of monetary loss and lack of funds for trust disbursements.

Recommendation 7

We recommend that the campus strengthen procedures over trust fund administration to ensure that trust projects maintain positive cash balances.

Campus Response

We concur. The campus now has a trust fund accountant assigned to review cash balances on a regular basis to ensure positive cash balances.

Anticipated completion date: April 30, 2007

TRUST FUND ADMINISTRATION

Trust fund administration required improvement.

Our review of 11 trust fund agreements disclosed that:

- ▶ In one instance, the authorized signatory of disbursements was not specified.
- ▶ In seven instances, the trust agreement did not include specimen signatures of the authorized signatory for disbursements. However, three of the seven agreements did have specimen signatures on file with purchasing.
- ▶ In ten instances, the agreements did not indicate time constraints.
- ▶ In six instances, reporting requirements were not specified.

- ▶ In two instances, the agreement did not reflect the signature of the budget director.

The lack of reporting requirements and approval from the budget office were reported in the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

SAM §19940.1 requires that each trust account established shall be supported by documentation as to the type of trust, donor or source of trust monies, purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balance, and restrictions on the use of monies for administrative or overhead costs. This documentation will be retained until the trust is dissolved.

CSUSM *Trust Fund Policy*, dated March 18, 2002, states that a trust fund project is established through a completed trust fund project agreement with all appropriate requesting and approving signatures.

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 interim associate vice president of finance and business services stated that incomplete trust agreements were an oversight.

Inadequate trust fund administration increases the risk of inappropriate expenditures and loss.

Recommendation 8

We recommend that the campus maintain complete trust fund documentation on file.

Campus Response

We concur. The trust fund agreement form has been revised to include signature space for specimen signatures for all authorized signers. The trust fund accountant is responsible for reviewing agreements to ensure completeness of all required information including time constraints, disposition of unexpended balances, and any restrictions on the use of the funds for administrative or overhead costs.

Anticipated completion date: April 30, 2007

TRUST EXPENDITURES

Trust fund expenditures were not always properly approved.

Our review of 23 trust fund expenditures dated between December 2004 and March 2006 disclosed that nine expenditures had not been approved by an individual who was an authorized signatory per the corresponding trust agreement.

SAM §19440.1 provides that each trust account established shall be supported by documentation of the persons authorized to withdraw or expend funds, their specimen signatures, the purpose of the trust, and restrictions on the use of monies.

The interim associate vice president of finance and business services stated that the lack of appropriate approvals was an oversight.

Failure to obtain proper authorization for trust expenditures increases the risk of inappropriate expenditures and loss.

Recommendation 9

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

Campus Response

We concur. The campus has established a new, electronic signature authority file to facilitate viewing current authorized signers by procurement and support services, accounts payable, trust fund accountant, and the originator of requisitions and other related financial documents.

Anticipated completion date: April 30, 2007

PEOPLESOFT IMPLEMENTATION

PROPERTY RECONCILIATIONS

Fixed asset reconciliations were not timely prepared. This is a repeat finding from the prior FISMA audit.

We found that the last three fixed asset reconciliations completed were for the months of April, May, and June of 2005.

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

The interim associate vice president of finance and business services stated that the delay in preparing fixed asset reconciliations was due to the unavailability of necessary reports due to the PeopleSoft conversion.

Untimely reconciliations increase the risk of misstated property records and theft or loss of state property.

Recommendation 10

We recommend that the campus prepare property reconciliations on at least a quarterly basis.

Campus Response

We concur. The campus will develop a written procedure to ensure that campus property reconciliations are completed on at least a quarterly basis.

Anticipated completion date: April 30, 2007

PROPERTY ACQUISITIONS AND DISPOSALS

Property acquisitions and disposals were not always timely recorded into the accounting records. This is a repeat finding from the prior FISMA audit for property acquisitions.

Our review of 13 property acquisitions dated between September 2004 and April 2006 and 19 property disposals dated between July 2005 and April 2006 disclosed that:

- ▶ In eight instances, property was recorded into the accounting records between 107 and 387 days after receipt.
- ▶ In six instances, property disposals were recorded into the accounting records 128 to 273 days after the disposal.

SAM §8600 states that when property meets the requirements of capitalization, then the property will be recorded as an asset in the general ledger.

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 §8643 states, in part, that whenever property is lost, stolen, or destroyed, departments will adjust their property accounting records.

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.

The interim associate vice president of finance and business services stated that the delay in preparing property acquisitions and disposals was because of the unavailability of necessary reports due to the PeopleSoft conversion.

Untimely recording of property acquisitions and disposals increases the risk of misstated property records and theft or loss of state property.

Recommendation 11

We recommend that the campus strengthen procedures to ensure that all property acquisitions and disposals are timely recorded.

Campus Response

We concur. The campus will develop a written procedure to ensure that all property acquisitions and disposals are timely recorded.

Anticipated completion date: April 30, 2007

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Karen S. Haynes	President
Shirley Brady	Interim Associate Vice President, Finance and Business Services
Jim Carr	Materials Management Lead, Procurement and Support Services
Alice Chary	Director of Payroll
Deborah Coronado	Associate Director and Benefits Manager, Human Resources and Equal Opportunity
Marc Dimacali	Information Technology Consultant
Belinda Garcia	Assistant Director, Parking and Transportation Services
Tina Griffith	Accountant
Robin Guidera	Business Manager, Student Health and Counseling Services
Neal Hoss	Vice President for Finance and Administrative Services
John Humes	Network Analyst
Debbie Janssen	Copy Center Lead
Dora Knoblock	Director, Campus Enterprises
Mary Kollmeyer	Budget Manager, Copy Center
Teresa Macklin	Director, Academic Technology Services/Information Security Officer
Alma McFarland	Interim Accounts Receivable Lead
Bella Newberg	Director of Procurement and Support Services
Diane Petersen	Enterprise Resource Planning Systems Lead
Karen Risely	Accountant
Nancy Suarez	Interim Director, Student Financial Services
Paul Tiglao	Systems Development and Enhancement Coordinator, Student Financial Services
Agnes Tobe	Accountant
Wayne Veres	Chief Information Officer
Susan Wallace	Accountant/Accounts Payable Lead
Shelly Wicka	Accountant
Dan Zorn	Director of Systems and Operations Development

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.



Office of the Vice President, Finance and Administrative Services

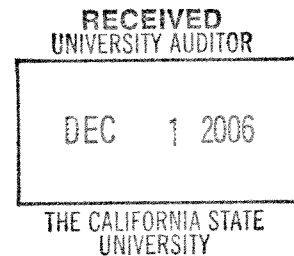
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December 1, 2006

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



Subject: Campus Responses to Recommendations: Audit Report Number 06-06
FISMA at California State University, San Marcos

Dear Mr. Mandel:

Enclosed is our response to the recommendation in Audit Report Number 06-06, FISMA, at California State University, San Marcos. Upon acceptance of our response, we will follow up with your office in providing supporting documentation for each recommendation by the anticipated completion dates.

Please let us know if you have any questions or need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Neal R. Hoss".

Neal R. Hoss
Vice President
Finance and Administrative Services

Enclosure

cc: President Karen S. Haynes
Ms. Shirley Brady, Interim Associate Vice President, Finance and Business Services
Ms. Linda Hawk, Associate Vice President, Resource Management

The California State University

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FISMA

**CALIFORNIA STATE UNIVERSITY,
SAN MARCOS**

**Report Number 06-06
November 1, 2006**

CASH RECEIPTS

Recommendation 1

We recommend that the campus strengthen procedures to ensure that reconciliations are formalized, signed and dated by the preparer and reviewer.

Campus Response

We concur. The campus' Accounting Services staff met with the satellite cashiering locations and developed reconciliation forms to include the signatures of the preparer and reviewer with dates. A University Cashier has been assigned the responsibility of auditing these reconciliation forms on a regular basis.

Anticipated Completion Date: April 30, 2007

ACCOUNTS RECEIVABLE

Recommendation 2

We recommend that the campus strengthen procedures to ensure that non-student accounts receivable are promptly pursued for collection, including the use of a series of three collection letters sent at 30-day intervals in a progressively stronger tone.

Campus Response

We concur. The campus has automated the collection letter series process for non-student accounts receivable. In addition, the campus will develop a written procedure to include samples of the three collection letters, position responsible for this function, a tracking method to ensure the collection letters are sent on a timely basis, monthly review of non-student accounts receivable, and action(s) to be taken if payment is not made after the third collection letter notification.

Anticipated Completion Date: April 30, 2007

PURCHASING

Recommendation 3

We recommend that the campus strengthen enforcement of its procurement card policy.

Campus Response

We concur. The campus will strengthen enforcement of its procurement card policy by scheduling more frequent audits of end-user accounts and providing additional training. The campus has a new provider with additional reporting capabilities and approving forms will be mandatory. In addition, the campus has formed a focus group charged with developing a new audit process.

Anticipated Completion Date: April 30, 2007

PAYROLL AND PERSONNEL

Recommendation 4

We recommend that the campus strengthen personnel procedures to ensure timely completion of Form I-9 and proper authorization of personnel transactions.

Campus Response

We concur. The campus will strengthen personnel procedures to ensure timely completion of Form I-9 and proper authorization of personnel transactions.

Anticipated Completion Date: April 30, 2007

FIXED ASSETS

Recommendation 5

We recommend that the campus implement the use of home use permits for off-campus use of university equipment.

Campus Response

We concur. The campus will develop a written procedure to ensure the implementation of home use permits for off-campus use of university equipment.

Anticipated Completion Date: April 30, 2007

FISCAL INFORMATION TECHNOLOGY

Recommendation 6

We recommend that the campus restrict non-essential personnel from having access to the computer room.

Campus Response

We concur. The campus will implement appropriate controls to restrict non-essential personnel from having access to the computer room.

Anticipated Completion Date: April 30, 2007

TRUST FUNDS

TRUST BALANCES

Recommendation 7

We recommend that the campus strengthen procedures over trust fund administration to ensure that trust projects maintain positive cash balances.

Campus Response

We concur. The campus now has a Trust Fund Accountant assigned to review cash balances on a regular basis to ensure positive cash balances.

Anticipated Completion Date: April 30, 2007

TRUST FUND ADMINISTRATION

Recommendation 8

We recommend that the campus maintain complete trust fund documentation on file.

Campus Response

We concur. The Trust Fund Agreement form has been revised to include signature space for specimen signatures for all authorized signers. The Trust Fund Accountant is responsible for reviewing agreements to ensure completeness of all required information including time constraints, disposition of unexpended balances and any restrictions on the use of the funds for administrative or overhead costs.

Anticipated Completion Date: April 30, 2007

TRUST EXPENDITURES

Recommendation 9

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

Campus Response

We concur. The campus has established a new, electronic signature authority file to facilitate viewing current authorized signers by Procurement and Support Services, Accounts Payable, Trust Fund Accountant, and the originator of requisitions and other related financial documents.

Anticipated Completion Date: April 30, 2007

PEOPLESOFT IMPLEMENTATION

PROPERTY RECONCILIATIONS

Recommendation 10

We recommend that the campus prepare property reconciliations on at least a quarterly basis.

Campus Response

We concur. The campus will develop a written procedure to ensure that campus property reconciliations are completed on at least a quarterly basis.

Anticipated Completion Date: April 30, 2007

PROPERTY ACQUISITIONS AND DISPOSALS

Recommendation 11

We recommend that the campus strengthen procedures to ensure that all property acquisitions and disposals are timely recorded.

Campus Response

We concur. The campus will develop a written procedure to ensure that all property acquisitions and disposals are timely recorded.

Anticipated Completion Date: April 30, 2007

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

December 6, 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 06-06 on *FISMA*,
California State University, San Marcos

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of December 6, 2006, I accept the response as submitted with the draft final report on *FISMA*, California State University, San Marcos.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Karen S. Haynes, President

SAN FRANCISCO

Mr. Neal R. Hoss, Vice President for Finance and Administrative Services

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS