

FISMA

**CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO**

**Audit Report 08-06
October 14, 2008**

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CONTENTS

Executive Summary	1
Introduction.....	4
Statement of Internal Controls.....	4
Purpose	5
Scope and Methodology.....	6

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Cash Receipts.....	7
Continuing Education.....	7
Uncleared Collections	8
Accounts Receivable.....	9
Purchasing.....	10
Operating Fund	11
Travel Advances.....	11
Change Funds	12
Cash Disbursements.....	12
Payroll.....	13
Employee Separation.....	13
Vacation Leave Accruals.....	15
Fixed Assets	16
Property Acquisitions	16
Home Use Permits.....	17
Property Survey Reports	18

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Campus Response
APPENDIX C:	Chancellor's Acceptance

ABBREVIATIONS

Cal Poly	California Polytechnic State University, San Luis Obispo
CE	Continuing Education
CSU	California State University
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
GC	Government Code
HR	Human Resources
SAM	State Administrative Manual

EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983, Government Code (GC) Sections 13400 through 13407. 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 GC, 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 Polytechnic State University, San Luis Obispo (Cal Poly) management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with GC, 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.
- ▶ Established controls are not only effective but also promote operational efficiency.
- ▶ 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 Cal Poly campus from April 28, 2008, through June 20, 2008, and made a study and evaluation of the accounting and administrative control in effect as of June 20, 2008. 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, operating fund, cash disbursements, payroll, and fixed assets. Three of the 12 findings were also repeats from the prior FISMA audit. 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, Cal Poly's accounting and administrative control in effect as of June 20, 2008, 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 [7]

Cash control weaknesses related to the daily deposit and prelisting of checks were found at continuing education. In addition, uncleared collections were not always timely resolved. A review of the uncleared collections reconciliation for March 2008 disclosed 12 items for various scholarships and grants that were dated between March and December 2007 and totaled \$22,648.

ACCOUNTS RECEIVABLE [9]

Collection letters were not consistently employed in the pursuit of delinquent third-party receivables.

PURCHASING [10]

Campus procurement card procedures were not always adequately enforced to ensure accountability for equipment assets purchased. This is a repeat finding from the prior FISMA audit.

OPERATING FUND [11]

The general campus policy to pay travel advances within 60 days of the date of travel was not in alignment with the CSU travel policy, which allows travel advances only within 30 days of the date of travel. Also, recurring overages and shortages in the cash counts of the parking dispenser change funds (from March 2007 and April 2008) were neither addressed nor researched nor was a reconciliation of cash activity performed for each fund.

CASH DISBURSEMENTS [12]

Access to the vendor master file was not adequately segregated from individuals responsible for processing payments. This is a repeat finding from the prior FISMA audit.

PAYROLL [13]

Payment of wages for terminated employees was not always timely and separation clearance forms were not always completed for separating employees. Also, vacation accrual adjustments were not always adequately controlled.

FIXED ASSETS [16]

Administration of fixed assets did not ensure that property was properly valued and timely recorded. In addition, home use permits were not always used and maintained on file. Lastly, property survey reports were not always properly completed. This is a repeat finding from the prior FISMA audit.

INTRODUCTION

STATEMENT OF INTERNAL CONTROLS

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. The ultimate responsibility for good internal control rests with management.

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, personnel of a quality commensurate with responsibilities, and an effective system of internal review.

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.

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.

Experience indicates that the existence of certain danger signals will usually be indicative of a poorly maintained or vulnerable control system. These symptoms may apply to the organization as a whole or to individual units or activities, and generally include any of the following danger signals:

- ▶ Policy and procedural or operational manuals are either not currently maintained or are non-existent.
- ▶ Lines of organizational authority and responsibility are not clearly articulated or are non-existent.
- ▶ Financial and operational reporting is not timely and is not used as an effective management tool.

- ▶ Line supervisors ignore or do not adequately monitor control compliance.
- ▶ No procedures are established to assure that controls in all areas of operation are evaluated on a reasonable and timely basis.
- ▶ Internal control weaknesses detected are not acted upon in a timely fashion.
- ▶ Controls and/or control evaluations bear little relationship to organizational exposure to risk of loss or resources.

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.

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.
- ▶ Operating 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.

- ▶ 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 2006/2007 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 October 2006 to December 2007. Our primary focus was on internal controls. Specifically, we reviewed and tested:

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Approval of purchases, receiving procedures, and reconciliation of expenditures to State Controller's balances.
- ▶ Limitations on the size and types of operating 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.
- ▶ 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 June 20, 2008. 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

CONTINUING EDUCATION

Cash control weaknesses were found at continuing education (CE).

We found that:

- ▶ CE transported the daily deposit to the main cashiering office in an inter-office envelope rather than a locked or secured container.
- ▶ CE did not maintain a prelisting of checks that were either erroneously addressed or intended for another department. Further, no documentation was maintained of the ultimate disposition of the checks to the main cashier or the intended departments.

State Administrative Manual (SAM) §8032.1 requires that receipts be adequately safeguarded until deposited.

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 assistant director of student financial services stated that CE adequately safeguarded its deposits to the main cashier by following campus policy that required the transport by two persons when cash exceeded \$2,500. The CE administrative support coordinator stated that she was unaware of the requirement to prelist and document the ultimate disposition of misdirected checks.

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

Recommendation 1

We recommend that the campus:

- a. Transport all deposits from CE to the main cashiering office in a locked or secured container.
- b. Prelist and document the ultimate location of erroneously addressed or misdirected checks received by CE.

Campus Response

We concur.

- a. Lockable deposit bags were purchased in July 2008 and the bags are in use by CE staff to transport all deposits to the main cashiering office.
- b. Effective October 2008, the CE office began use of a log to record all erroneously addressed or misdirected checks prior to forwarding the checks to the appropriate area.

UNCLEARED COLLECTIONS

Uncleared collections were not always timely resolved.

Our review of the uncleared collections reconciliation as of March 31, 2008, disclosed 12 items for a total of \$22,648 that were dated between March 2, 2007, and December 28, 2007. These items all related to scholarship and grant funds related to financial aid that had not yet been set up in the accounting system.

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

The assistant director of student financial services stated that general accounting and financial reporting performs uncleared collections reconciliations on a monthly basis and makes an effort to regularly follow-up on uncleared scholarship and grant items with the financial aid office. However, since the financial aid office is in a different division, the general accounting area did not have control over when the accounts would be set up so that the items can be cleared.

Failure to timely resolve unapplied credit balances in the uncleared collections account limits the campus' ability to detect errors and irregularities and may delay proper revenue recognition.

Recommendation 2

We recommend that the campus establish procedures to timely clear outstanding collections.

Campus Response

We concur. We (general accounting and financial reporting) will formalize procedures and timely clear outstanding collections.

Completion date: January 31, 2009

ACCOUNTS RECEIVABLE

Collection letters were not consistently employed in the pursuit of delinquent third-party receivables.

Our review of 16 third-party receivables from the March 31, 2008, aging schedule disclosed that:

- ▶ Collection letters were not consistently sent out in 30-day intervals for three of the eight third-party (non-employee) accounts receivables reviewed. For these items, the first collection letter was sent four to six months after the original invoice, a second collection letter was only documented in one instance, and a third collection letter was not sent for any of the receivables reviewed.
- ▶ Collection letters were not consistently sent out in 30-day intervals for three of the eight third-party (separated employee) accounts receivables reviewed. For two of these items, initial communication of the receivable was not made until 10 to 12 months after the receivable was discovered. First and second collection letters were sent out timely in only one instance.

State University Administrative Manual §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 provides procedures and guidelines regarding adequate collection efforts and follow-up on receivables, including a sequence of three collection letters at 30-day intervals, and analysis of what additional collection efforts should be made, including consideration of tax offset procedures or collection agencies.

The director of fiscal services and the assistant director of payroll and payroll management stated that the campus believes that the use of 30-60-90-day letters is important; however, collection procedures must be tailored to the situation as there may be history with the third party or other communication in the form of e-mails or telephone conversations that is more appropriate than a collection letter. Both stated that the campus monitors its delinquent accounts receivable and makes every effort to collect the monies owed to it.

Inadequate control over delinquent accounts receivable reduces the likelihood of collection, increases the amount of resources expended on collection efforts, negatively impacts cash flow, and increases the risk that receivables will not be properly reflected in the campus financial statements.

Recommendation 3

We recommend that the campus strengthen procedures for the use and documentation of collection letters for both non-employee and separated employee third-party receivables.

Campus Response

We concur. We will strengthen procedures for the use and documentation of collection letters and other appropriate collection efforts.

Completion date: January 31, 2009

PURCHASING

Campus procurement card procedures were not always adequately enforced to ensure accountability for equipment assets purchased. This is a repeat finding from the prior Financial Integrity State Manager's Accountability Act (FISMA) audit.

Our review of ten procurement card purchases between October 1, 2006, and December 31, 2007, disclosed that three equipment assets greater than \$500 were not tagged and added to the campus property system. These three assets totaled \$6,578.

The California Polytechnic State University, San Luis Obispo (Cal Poly) Procurement Card Handbook, dated February 2006 and revised in February 2008, states that equipment having a purchase price of \$500 or more must be reported to the property office. Equipment is considered items having a life expectancy of more than one year. Further, any items considered theft sensitive that one would like to have recorded in the property system should be reported.

The assistant director of general accounting and financial reporting stated that the process to record procurement card equipment purchases in the property system includes accounts payable receiving the monthly procurement card reconciliations and reporting the equipment purchases to the property office. She further stated the property office then records the equipment in the property records. She stated that there may have been some items missed in 2007 due to the disability and retirement of the property clerk of many years, as well as the PeopleSoft asset management implementation.

Insufficient control over the accountability of equipment increases the risk of misstated property records and theft, loss, or unauthorized use of state property.

Recommendation 4

We recommend that the campus enforce procurement card procedures to ensure that equipment assets greater than \$500 are tagged and recorded to the property system.

Campus Response

We concur. We (accounts payable and property accounting) will implement procedures to better communicate and document individual equipment items greater than or equal to \$500 purchased with the procurement card.

Completion date: January 31, 2009

OPERATING FUND

TRAVEL ADVANCES

Campus policies for controlling travel advances needed strengthening.

Our review of ten cleared travel advances issued between October 1, 2006, and December 31, 2007, disclosed that two items were issued in advance of 30 calendar days when the anticipated expenses were to be paid or incurred.

California State University (CSU) directive HR 2007-20, *CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement*, dated December 20, 2007, state that employees may receive a travel advance no sooner than 30 days before a travel expense is to be paid or incurred and travel advances may be made in excess of 30 days in advance, but this can only be done if the employee or employer justifies and documents the reasonableness in light of the facts and circumstances.

The assistant director of payroll and payroll management stated that travelers are generally approved for travel advances within 60 days of travel because the campus encourages employees to take advantage of travel discounts that can be obtained by booking airfare or paying for other travel costs in advance.

Insufficient control over travel advances increases the risk that operating fund monies may not be available and reduces the likelihood of collection.

Recommendation 5

We recommend that the campus implement procedures to ensure that travel advances are not issued more than 30 calendar days prior to the anticipated travel.

Campus Response

We concur. We (accounts payable office) will implement a written justification procedure for travel advances that are requested more than 30 days prior to the anticipated travel date.

Completion date: January 31, 2009

CHANGE FUNDS

Controls over parking dispenser change funds needed improvement.

We noted that the campus had performed quarterly cash counts of the parking dispenser change funds; however, recurring overages and shortages in the cash counts between March 2007 and April 2008 were neither addressed nor researched nor was a reconciliation of cash activity performed for each fund.

SAM 8111.2 states that the custodian of the change fund will be personally responsible for the amount of the fund. Without reconciliations being performed to determine the true position of the fund, such accountability cannot be maintained.

The assistant director of student financial services stated that he did not believe that the overages and shortages in these cash counts were true overages and shortages to the funds and that reconciliation of the coin in the change funds will be implemented in the near future.

Inadequate administration of change and purchase funds increases the risk of loss and inappropriate use of state assets.

Recommendation 6

We recommend that the campus perform a periodic reconciliation of the cash maintained in the parking dispensers.

Campus Response

We concur. We (university police department) will begin a quarterly reconciliation of the cash maintained in the parking dispensers in December 2008 when the next cash count of the parking dispensers establishes a beginning balance. The first quarterly reconciliation will be as of March 31, 2009.

Completion date: April 30, 2009

CASH DISBURSEMENTS

Access to the vendor master file was not adequately segregated from individuals responsible for processing payments. This is a repeat finding from the prior FISMA audit.

Our review disclosed that two individuals had the ability to process payments as well as update the vendor master file. Although it was not within their normal job duties, this access was considered necessary because of the individuals' job duties to enter 1099 information and create express checks.

SAM §8080.1 states that each state agency should establish and maintain an adequate system of internal control, and that a key element in a system of internal control is separation of duties. Further, “No one person shall perform more than one of the following 11 types of duties: ... (3) maintaining records file and operating mechanized equipment ... (4) initiating disbursement document ... (5) approving disbursement document ... (6) inputting disbursement information.”

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets.

The assistant director of payroll and payroll management stated that since the last FISMA audit, the campus has substantially strengthened controls with regard to the vendor master file and had taken access away from the four accounts payable technicians. He further stated that both he and an accounting technician II continued to have access to the vendor master file in order to make necessary edits to 1099 setup. He stated that the campus has determined that 1099 setup should remain in the accounting function to ensure accurate and timely tax withholdings due to the level of tax and accounting knowledge necessary to perform this function.

Failure to maintain adequate control over the vendor master file increases the risk of fraudulently misdirected payments.

Recommendation 7

We recommend that the campus restrict vendor update permissions from individuals responsible for processing payments.

Campus Response

We concur. We will remove PeopleSoft vendor update access for accounts payable staff that has payment processing responsibilities.

Completion date: January 31, 2009

PAYROLL

EMPLOYEE SEPARATION

Administration of employee separations needed improvement.

Our review of ten employee separations between October 1, 2006, and December 31, 2007, disclosed that:

- ▶ Four terminated employees were not paid within 72 hours (three days) after resignation. These employees were paid between 10 and 29 days after resignation.

- ▶ One employee was not paid immediately (same day) after being discharged. This employee was paid five days after the termination effective date.
- ▶ Three employees did not have a separation clearance form on file.

CSU directive HR 2003-15, *Payment of Wages at Separation*, dated August 6, 2003, states, in part, that an employee who is discharged must be paid for wages earned and benefits accrued immediately. In addition, it states that an employee who resigns must be paid wages and benefits earned no later than 72 hours after resignation; however, if the employee provides at least 72 hours notice of resignation, they should be paid at the time of separation. The 72 hours is a continuous period that includes weekends and holidays.

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 assistant director of payroll and payroll management stated that if a separated employee requests their final payment immediately, the campus would create a manual check to the employee and if the employee does not mind waiting until the regular check run, they would get paid by the State Controller's Office. He also stated that for faculty who teach every academic year, separation pay continues to run through the end of the term in order to continue their benefits.

Insufficient administration of employee separations increases the risk of late wage payments, loss of state funds, and inappropriate use of state resources.

Recommendation 8

We recommend that the campus strengthen procedures to ensure that terminated employees are paid in a timely manner and clearance forms are prepared and obtained for such employees.

Campus Response

We concur. We will strengthen procedures to ensure that employees separated from employment are paid within the prescribed time frames as defined in CSU directive HR 2003-15.

Completion date: January 31, 2009

VACATION LEAVE ACCRUALS

Vacation leave accrual balances were not always adequately controlled.

Our review of 17 employees with year-end vacation hours in excess of the maximum at December 31, 2007, disclosed that:

- ▶ Three of seven employees who were allowed to carry over vacation balances in excess of the maximum allowable accrual, did not have proper presidential approval. The leave balances were approved by the employees' supervisor or other department managers.
- ▶ Four of seven employees who were allowed to carry over vacation balances had authorizations that approved carryover of less vacation hours than was actually processed. The campus had a proactive policy of requesting rollover approvals a month in advance; however, no documentation was required to update the rollover approval if the amount of hours changed between the initial request and the year-end balance.

The Collective Bargaining Agreements for Units 1, 3, 4, 6, and 10, as well as the California Code of Regulations, Title 5, Chapter 1, Subchapter 7, Article 42909 set maximum limits on the amount of vacation credits that are allowed to be accrued, and grant authority only to the president of the campus to permit an employee to carry over more vacation credits than the prescribed maximum.

The associate vice president of finance and the assistant director of payroll and payroll management stated that the campus policy allowed the person who is authorized to approve leave (employee's supervisor or manager) to also approve leave carryovers. The associate vice president of finance further stated that while the structure of the state code gives responsibility for many duties to the president of the campus, the campus' interpretation was that the responsibility to approve leave accruals over maximum was implicitly delegated to the appropriate supervisor or manager. He also stated that creating and maintaining delegations of authority for all colleges and departments on campus would be administratively impossible and would not significantly strengthen controls.

Failure to maintain accrued vacation leave balances within prescribed maximums and incorrectly adjusting balances results in over/under compensation of employees and exposes the campus to increased liability.

Recommendation 9

We recommend that the campus:

- a. Establish procedures to ensure proper approval of excessive leave balance carryovers by the campus president or his designee.
- b. Strengthen procedures to document the approval of the actual number of excess vacation hours carried over.

Campus Response

We concur. We will strengthen procedures to ensure proper approval of leave balance carryovers in excess of maximums.

Completion date: February 28, 2009

FIXED ASSETS

PROPERTY ACQUISITIONS

Administration of fixed assets did not ensure that property was properly valued and timely recorded.

Our review of 18 property purchases/acquisitions between October 1, 2006, and December 31, 2007, disclosed that:

- ▶ Five of the seven capitalized assets tested were not recorded at the correct dollar amount. Specifically, three items did not include sales tax and/or freight totaling \$9,014, one item was recorded as an average instead of its actual purchase price which resulted in a \$375 difference, and for one item, we could not determine how the property value was calculated, resulting in a difference of \$3,895. An additional item tested in the procurement card review was also recorded incorrectly and excluded sales tax of \$478.
- ▶ Seventy-seven computers purchased in January 2007 had not been tagged or recorded in the property system.
- ▶ An additional 88 items purchased between January 2007 and October 2007 had been entered into the property system, but had not been assigned tag numbers or tagged as of the March 31, 2008, property listing. These items had acquisition costs of \$661,558.

Executive Order (EO) 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 §8631 states that purchased assets must be recorded at cost, which is the purchase price plus all incidental costs incurred to put the asset into place and ready for its intended use.

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 assistant director of general accounting and financial reporting stated that the campus recently implemented PeopleSoft asset management in June 2007 and during the conversion period, the campus held off on entering items into the property system, which created a backlog of items that

needed to be tagged. She also stated that the property clerk of many years was away from the campus and subsequently retired, leaving the property office shorthanded.

Insufficient control over property valuation and untimely recording of fixed asset acquisitions increases the risk of misstated property records and theft, loss, or unauthorized use of state property.

Recommendation 10

We recommend that the campus:

- a. Strengthen procedures to ensure that all costs, including freight and taxes, are included in the cost of capitalized assets.
- b. Strengthen and enforce procedures to ensure that assets are assigned tag numbers appropriately, and are promptly tagged at the time of acquisition.

Campus Response

We concur.

- a. We (property accounting) will take appropriate steps to further strengthen procedures to ensure all costs, including taxes and freight, are included in the costs of capitalized assets.

Completion date: January 31, 2009

- b. We (property accounting) will take appropriate steps to further strengthen and enforce procedures to ensure assets are tagged more timely.

Completion date: January 31, 2009

HOME USE PERMITS

Home use permits were not always used and maintained on file.

Our review of 12 laptop computers purchased between December 1, 2006, and October 31, 2007, and used by campus personnel disclosed that an off-campus use form was not on file for eight applicable laptops and one laser printer that was identified during the fixed asset physical verification and also used off-campus by a faculty member.

Cal Poly's *Off-Campus Equipment Control Policy and Procedure* states that Cal Poly property may not be taken off-campus unless it is necessary for official state business and it may only be taken off-campus with the proper written authorization. Departments must maintain records of any state property that is taken off-campus. The property office maintains an off-campus use form for department use to document the authorization of property being taken off-campus.

EO 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.

The assistant director of general accounting and financial reporting stated that the campus has strengthened procedures for home use permits by posting the campus procedure and approval form for off-campus equipment usage on the property website. She also stated that it was each department's responsibility to obtain these forms from its employees and additional communication needed to be made to the departments regarding this matter.

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

Recommendation 11

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

Campus Response

We concur. We (property accounting) will more fully implement the use of forms for off-campus use of university equipment.

Completion date: January 31, 2009

PROPERTY SURVEY REPORTS

Property survey reports were not always properly completed.

Our review of 20 recent asset disposals between October 1, 2006, and December 31, 2007, disclosed:

- ▶ For six items that were sold, the property survey report did not identify the sale price, date, or receipt number.
- ▶ For two of the items, the property survey report could not be located. This is a repeat finding from the prior FISMA audit.

EO 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 §3520.3 states that when an agency proposes to dispose of state-owned, non-expendable surplus property by sale, by trade-in, or by discarding the property, the agency prepares a property survey report. If the agency sells the property, the agency enters the dollar amount received from the sale and the receipt number on STD. 152, and disposes of the listed property without delay.

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

The assistant director of general accounting and financial reporting stated that the campus generally does not keep track of individual item sales amounts unless the item is a high dollar amount and that missing property survey reports were most likely due to the retirement of the property survey clerk and the subsequent reorganization of the property office.

Inadequate control over university property reduces accountability and increases the risk of misstatement, theft, loss, and inappropriate use of state resources.

Recommendation 12

We recommend that the campus obtain and properly complete property survey reports for applicable assets.

Campus Response

We concur. We (property accounting) will obtain and ensure the proper completion of property survey reports for disposed assets.

Completion date: January 31, 2009

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Warren J. Baker	President
Karen Aguilar	Accountant II
Betty Allen	Accounting Technician III
Teresa Allen	Instructional Faculty
Marc Benadiba	Assistant Director, Payroll and Payroll Management
Leanne Berning	Instructional Faculty
Victor Brancart	Associate Director, Budget and Analytical Business Services
Debbie Brothwell	Director, Budget and Analytical Business Services
Cody Chaney	Administrative Analyst/Specialist
Kathy Cook	Executive Assistant
Marlene Cramer	Administrative Analyst/Specialist
Jeffrey Danes	Instructional Faculty
Sharon Degnan	Accounting Technician I
Ken Delmese	Property Clerk
Blaine Errea	Accounting Technician I
Al Estes	Department Head-Architectural Engineering
Jody Fisher	Accounting Technician III
David Gillette	Instructional Faculty
Richard Grise	Analyst/Programmer
Leanne Hindmarch	Librarian
Marjorie Holland	Administrative Support Assistant
Judy Holloway	Administrative Analyst/Specialist
Brett Holman	Assistant Director, Student Financial Services
Lawrence Kelley	Vice President, Administration and Finance
Teresa Kempton	Administrative Support Assistant
Lorlie Leetham	Director, Fiscal Services
Frank Limon	Supervisor, Distribution Services
Dee Louie	Accountant II
Johanna Madjedi	Director, Communications and Computing Services
Tonia Malone	Information Technology Consultant
Donna Massicotte	Administrative Analyst/Specialist
Gregory Melnyk	Procurement Manager
Barbara Melvin	Director, Human Resources
Fred Mills	Administrative Analyst/Specialist
Mary Milosevic	Information Technology Consultant
Sara Pahlow	Administrative Analyst/Specialist
Kimberly Perez	Assistant Director, General Accounting and Financial Reporting
Cindy Piper	Accounting Technician III
Rick Ramirez	Associate Vice President, Finance
Nancy Reynolds	Assistant Director, Fiscal Services
Matthew Roberts	Director, Contracts and Procurement Services
David Ross	Service Desk Manager
Vanessa Scrimiger	Administrative Support Coordinator
Sumi Seacat	Administrative Analyst/Specialist

APPENDIX A: PERSONNEL CONTACTED

Lynne Slivovsky	Instructional Faculty
Linda Stark	Administrative Support Coordinator
Vicki Stover	Associate Vice President, Administration (At time of review)
Brenda Tesch	Buyer III Lead
Elizabeth Williams	Accounting Technician II

CAL POLY

California Polytechnic State University
San Luis Obispo, CA 93407

Administration & Finance Division
(805) 756-2171 • Fax (805) 756-7560

RECEIVED
UNIVERSITY AUDITOR

NOV 7 2008

THE CALIFORNIA STATE
UNIVERSITY

05 November 2008

Mr. Larry Mandel
University Auditor
Office of the University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4275

Subject: Campus Response to Recommendations of Audit Report Number 08-06,
Financial Integrity and State Manager's Accountability Act (FISMA), at
California Polytechnic State University, San Luis Obispo

Dear Larry:

Enclosed in reply to your 15 October 2008 letter to President Baker, are Cal Poly's responses to FISMA Audit Report No. 08-06. The responses are submitted to you for review and for acceptance by the Chancellor. The responses include a corrective action plan and time frame for completion.

Please direct questions to Rick Ramírez, Associate Vice President for Finance, at 805-756-2091 (rramirez@calpoly.edu).

Sincerely,



Lawrence Kelley
Vice President for Administration & Finance

cc: W. Baker, R. Ramírez

FISMA

**CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO**

Audit Report 08-06

CASH RECEIPTS

CONTINUING EDUCATION

Recommendation 1

We recommend that the campus:

- a. Transport all deposits from CE to the main cashiering office in a locked or secured container.
- b. Prelist and document the ultimate location of erroneously addressed or misdirected checks received by CE.

Campus Response

We concur.

- a. Lockable deposit bags were purchased in July 2008 and the bags are in use by Continuing Education staff to transport all deposits to the main cashiering office.
- b. Effective October 2008, the Continuing Education office began use of a log to record all erroneously addressed or misdirected checks prior to forwarding the checks to the appropriate area.

UNCLEARED COLLECTIONS

Recommendation 2

We recommend that the campus establish procedures to timely clear outstanding collections.

Campus Response

We concur. We (General Accounting and Financial Reporting) will formalize procedures and timely clear outstanding collections.

Completion Date: January 31, 2009.

ACCOUNTS RECEIVABLE

Recommendation 3

We recommend that the campus strengthen procedures for the use and documentation of collection letters for both non-employee and separated employee third-party receivables.

Campus Response

We concur. We will strengthen procedures for the use and documentation of collection letters and or other appropriate collection efforts.

Completion Date: January 31, 2009

PURCHASING

Recommendation 4

We recommend that the campus enforce procurement card procedures to ensure that equipment assets greater than \$500 are tagged and recorded to the property system.

Campus Response

We concur. We (Accounts Payable and Property Accounting) will implement procedures to better communicate and document individual equipment items greater than or equal to \$500 purchased with the Procurement card.

Completion Date: January 31, 2009.

OPERATING FUND

TRAVEL ADVANCES

Recommendation 5

We recommend that the campus implement procedures to ensure that travel advances are not issued more than 30 calendar days prior to the anticipated travel.

Campus Response

We concur. We (Accounts Payable office) will implement a written justification procedure for travel advances that are requested more than 30 days prior to the anticipated travel date.

Completion Date: January 31, 2009.

CHANGE FUNDS

Recommendation 6

We recommend that the campus perform a periodic reconciliation of the cash maintained in the parking dispensers.

Campus Response

We concur. We (University Police Department) will begin a quarterly reconciliation of the cash maintained in the parking dispensers in December 2008 when the next cash count of the parking dispensers establishes a beginning balance. The first quarterly reconciliation will be as of March 31, 2009.

Completion Date: April 30, 2009.

CASH DISBURSEMENTS

Recommendation 7

We recommend that the campus restrict vendor update permissions from individuals responsible for processing payments.

Campus Response

We concur. We will remove PeopleSoft vendor update access for Accounts Payable staff that have payment processing responsibilities.

Completion Date: January 31, 2009.

PAYROLL

EMPLOYEE SEPARATION

Recommendation 8

We recommend that the campus strengthen procedures to ensure that terminated employees are paid in a timely manner and clearance forms are prepared and obtained for such employees.

Campus Response

We concur. We will strengthen procedures to ensure that employees separated from employment are paid within the prescribed timeframes as defined in Chancellor's Office Technical letter HR 2003-15.

Completion Date: January 31, 2009.

VACATION LEAVE ACCRUALS

Recommendation 9

We recommend that the campus:

- a. Establish procedures to ensure proper approval of excessive leave balance carryovers by the campus president or his designee.
- b. Strengthen procedures to document the approval of the actual number of excess vacation hours carried over.

Campus Response

We concur. We will strengthen procedures to ensure proper approval of leave balance carryovers in excess of maximums.

Completion Date: February 28, 2009.

FIXED ASSETS

PROPERTY ACQUISITIONS

Recommendation 10

We recommend that the campus:

- a. Strengthen procedures to ensure that all costs, including freight and taxes, are included in the cost of capitalized assets.
- b. Strengthen and enforce procedures to ensure that assets are assigned tag numbers appropriately, and are promptly tagged at the time of acquisition.

Campus Response

We concur.

- a. We (Property Accounting) will take appropriate steps to further strengthen procedures to ensure all costs, including taxes and freight, are included in the costs of capitalized assets.

Completion Date: January 31, 2009.

- b. We (Property Accounting) will take appropriate steps to further strengthen and enforce procedures to ensure assets are tagged more timely.

Completion Date: January 31, 2009.

HOME USE PERMITS

Recommendation 11

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

Campus Response

We concur. We (Property Accounting) will more fully implement the use of forms for off-campus use of University equipment.

Completion Date: January 31, 2009.

PROPERTY SURVEY REPORTS

Recommendation 12

We recommend that the campus obtain and properly complete property survey reports for applicable assets.

Campus Response

We concur. We (Property Accounting) will obtain and ensure the proper completion of property survey reports for disposed assets.

Completion Date: January 31, 2009.



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

December 4, 2008

CHANNEL ISLANDS

CHICO

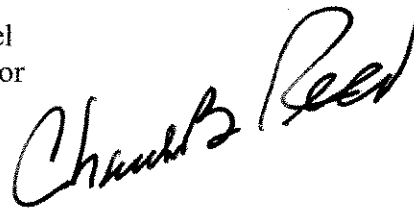
MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor


FULLERTON

SUBJECT: Draft Final Report 08-06 on *FISMA*,
California Polytechnic State University, San Luis Obispo

HUMBOLDT

LONG BEACH

LOS ANGELES

In response to your memorandum of December 4, 2008, I accept the response as submitted with the draft final report on *FISMA*, California Polytechnic State University, San Luis Obispo.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/jt

POMONA

Enclosure

SACRAMENTO

cc: Dr. Warren J. Baker, President
Mr. Lawrence R. Kelley, Vice President, Administration and Finance

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS