

**FISMA**

**CALIFORNIA STATE UNIVERSITY,  
SACRAMENTO**

**Audit Report 08-10  
April 30, 2009**

---

**Members, Committee on Audit**

Melinda Guzman, Chair  
Raymond W. Holdsworth, Vice Chair  
Herbert L. Carter    Carol R. Chandler  
Kenneth Fong    Margaret Fortune  
George G. Gowgani    William Hauck  
Henry Mendoza

---

**Staff**

University Auditor: Larry Mandel  
Senior Director: Michelle Schlack  
Internal Auditor: Anh Pham

---

**BOARD OF TRUSTEES  
THE CALIFORNIA STATE UNIVERSITY**

---

# CONTENTS

Executive Summary ..... 1

Introduction ..... 3

    Statement of Internal Controls..... 3

    Purpose ..... 4

    Scope and Methodology ..... 5

---

# OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Accounts Receivable ..... 6

    Delinquent Accounts ..... 6

    Cost Allocation Plan..... 7

Fixed Assets ..... 8

    Property Inventory ..... 8

    Sensitive Property..... 9

## **APPENDICES**

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

---

## **ABBREVIATIONS**

CSU	California State University
CSUS	California State University, Sacramento
DOT	California Department of Transportation
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
GAAP	Generally Accepted Accounting Principles
GC	Government Code
ICSUAM	Integrated California State University Administrative Manual
MOU	Memorandum of Understanding
SAM	State Administrative Manual
UTAPS	University Transportation and Parking Services

---

## 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 State University, Sacramento (CSUS) 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 CSUS campus from November 12, 2008, through December 17, 2008, and made a study and evaluation of the accounting and administrative control in effect as of December 17, 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 collection of past-due accounts receivable and the performance of property inventories at prescribed time frames. These two findings were also noted in 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, CSUS's accounting and administrative control in effect as of December 17, 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.

### **ACCOUNTS RECEIVABLE [6]**

Pursuit of delinquent student and third-party accounts receivable was inadequate. This is a repeat finding from the prior FISMA audit. Also, the campus did not have a fully signed Memorandum of Understanding from all auxiliary and enterprise organizations for the reimbursement of facilities, goods, and services for fiscal year 2008/09.

### **FIXED ASSETS [8]**

Physical inventory counts were not always performed every 18 months as required by campus policy. This is a repeat finding from the prior FISMA audit. In addition, home use permits were not always completed for off-campus use of university laptops.

---

## 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 manner.
- ▶ Controls and/or control evaluations have 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 objectives were to assess the adequacy of the systems of internal accounting and administrative control and to determine whether financial operations were conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and directives of the Board of Trustees and the Office of the Chancellor. Specifically, we sought assurances that:

- ▶ Legal and regulatory requirements are complied with.
- ▶ Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- ▶ Assets are adequately safeguarded from loss, damage, or misappropriation.
- ▶ Duties are appropriately segregated consistent with appropriate control objectives.
- ▶ Transactions, accounting entries, or systems output is reviewed and approved.
- ▶ Management does not intentionally override internal controls to the detriment of control objectives.
- ▶ Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- ▶ Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- ▶ Management seeks to prevent or detect erroneous recordkeeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.

## 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 (2007/08) 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 January 2008 to October 2008. Our primary focus was on internal controls.

A preliminary survey of the campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the campus. Our assessment of risk was based upon a systematic process using management's feedback and professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Use of petty cash funds, periodic cash counts, and the administration and reconciliation of bank accounts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Authorization and proper classification 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.
- ▶ Establishment of trust funds, separate accounting, and adequate agreements.

We have not performed any auditing procedures beyond December 17, 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

### ACCOUNTS RECEIVABLE

#### DELINQUENT ACCOUNTS

Pursuit of delinquent student and third-party accounts receivable was inadequate. This is a repeat finding from the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

Our review of delinquent accounts receivable from the August 2008 aging report disclosed that:

- ▶ Follow-up collection correspondence was not sent timely and/or could not always be located in the file for all 12 student accounts receivable. In 3 of the 12 instances, student accounts receivable had not been billed in a reasonable amount of time.
- ▶ Follow-up collection correspondence was not sent timely and/or could not always be located in the file for 9 of the 10 third-party receivable reviewed.
- ▶ Three separate third-party accounts receivable from the California Department of Transportation (DOT) had balances over 90 days past due totaling \$153,769, \$253,572, and \$52,885, as of March 17, 2007, March 6, 2008, and March 20, 2008, respectively. The campus had not required any signed agreements from the agency to acknowledge the past-due status of their liabilities and support their commitment to pay these debts.

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 offset claim procedures for accounts greater than \$10.

State Administrative Manual (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 assistant director of the student financial services center stated that untimely collection efforts were due to a combination of factors, including staff turnover and vacancies, training, workload volume and commitments, and lapse of periodic monitoring of employees' collection progress. She added that the implementation of the Common Management Systems Student Financials in June 2007 did not include adequate reporting solutions related to the collection and conversion of aged student receivables. She also stated that the department had not recognized a need to formally document the past-due status of state agencies and to obtain their commitment to pay the debt because the debts

were incurred based on a contract, which included payment terms. She added that the receipt of grant money from a state agency, such as the DOT, can involve an extended period of time.

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

### **Recommendation 1**

We recommend that the campus ensure that delinquent student and third-party accounts receivable are promptly pursued. This might include ceasing any further provision of university services and charging interest on account balances.

### **Campus Response**

We concur. By October 31, 2009, the campus will enhance the collection efforts and tracking process. These revisions will include the utilization of new reporting tools to track delinquent student and third-party accounts. The campus will track grant unpaid invoices by working more closely with the granting agency to ensure timelier payment. The aging report was updated and is based on due date rather than activity date. Additionally, to monitor delinquent student accounts, the campus will use the newly developed Student Financials Collection Module, and will establish collection procedures that will support the new ICSUAM policy for student receivables.

## **COST ALLOCATION PLAN**

The campus did not have a fully signed Memorandum of Understanding (MOU) from all auxiliary and enterprise organizations for the reimbursement of facilities, goods, and services for fiscal year 2008/09.

In May 2008, the campus had updated its cost allocation methodology for fiscal year 2008/09 and prepared individual MOUs for eight internal organizations. However, we noted that three MOUs were fully signed and executed and the remaining five were only signed by the chief financial officer.

Executive Order (EO) 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, states that allowable and allocable indirect costs shall be allocated and recovered according to a cost allocation plan that utilizes a documented and consistent methodology including identification of indirect costs and a basis for allocation. The campus chief financial officer or designee shall annually approve and implement the cost allocation plan.

The associate vice president for business and administrative services stated that the 2008/09 cost allocation MOU's were forwarded to the campus auxiliaries and enterprise organizations in June 2008 for signature. However, in order to ensure transparency in the process, additional meetings were held with each organization; and as a result, the cost allocation methodology for public safety services was revised. She also stated that over the past two years, several of the campus financial

managers have had key roles at the California State University (CSU) system level in the development of the Revenue Management Program, which limited the campus' ability to devote the necessary resources to this project.

The absence of signed MOUs in support of the campus cost allocation plan increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliary enterprises.

### **Recommendation 2**

We recommend that the campus obtain signed MOUs from all auxiliary and enterprise organizations for the allocation and recovery of indirect costs.

### **Campus Response**

The university plans to model the chancellor's office approach of charging for direct and indirect costs, and forego the use of signed MOU's. This method is based on the chief financial officer's authority to approve and implement the cost allocation plan, as stipulated in EO 1000. The university will process the 2008/09 reimbursement due from the three remaining auxiliary and enterprise organizations, for the costs incurred by those entities. This reimbursement process will be completed by July 31, 2009.

## **FIXED ASSETS**

### **PROPERTY INVENTORY**

Physical inventory counts were not always performed every 18 months as required by campus policy. This is a repeat finding from the prior FISMA audit.

The CSU Sacramento *Property Inventory Policy* states that on an 18-month basis, departments are responsible for conducting a physical count of all equipment and property and reconciling the inventory to property accounting records.

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 §8652, in general, requires a physical count of all property, a reconciliation of the count to accounting records at least once every three years, and management oversight of resulting adjustments and that inventories will not be exclusively controlled by the custodian of the property records.

The director of procurement and contracts stated that workload commitments and lack of adequate staffing impeded the ability of property management to provide oversight and to monitor the

completion and documentation of physical inventories by campus departments within the 18-month time frame.

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

### **Recommendation 3**

We recommend that the campus ensure that all department inventories are performed and reconciled to the general ledger every 18 months or at least every three years.

### **Campus Response**

We concur. As of November 2008, the campus policy was revised to require that physical inventory of property will be completed every 36 months. The inventories will be completed in phases, and the inventories for the entire campus will be completed within the three-year time frame. The inventory schedules for each campus department were changed to reflect this approach. Annually, upon receipt of the department's inventory report, the asset manager will update the Asset Management system. Accounting services reconciles the general ledger to the Asset Management system on a monthly basis.

## **SENSITIVE PROPERTY**

Home use permits were not always completed for off-campus use of university laptops.

Our review of ten laptops recorded on the October 2008 property listing disclosed that in four instances, off-campus home use permits were not completed for laptops issued to campus employees.

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 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 director of procurement and contract services stated that the campus has had difficulty ensuring that departments were aware of this requirement and getting department employees to complete, retain, and distribute these forms.

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

**Recommendation 4**

We recommend that the campus ensure that home use permits are completed for off-campus use of all university laptops.

**Campus Response**

We concur. As of November 2008, the campus policy was revised to require the use of the Equipment Check-Out Form, which is located on the procurement services website. Financial services informed the campus community of this requirement at the Business Partners Roundtable meeting, held on February 27, 2009.

---

## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Alexander Gonzalez	President
LaVerne Simmons-Barnett	Associate Director of Accounting Services
Kendal Chaney-Buttleman	Director of Accounting Services
Darnell Cooper	Accountant I
Gina Curry	Director, Student Financial Services Center and University Bursar
Jackie Fierros	Payroll Manager
Nancy Fox	Director of University Transportation and Parking Services (UTAPS)
Stephen Garcia	Vice President for Administration and Chief Financial Officer
Annette Ha	Budget Analyst, UTAPS
Caryl Vickers-Harper	Assistant Director, Student Financial Services Center/University Collections and Student Loans
Justine Heartt	University Controller
Susan Johnson	Director of Accounts Payable and Travel
Elena Larson	Assistant Director, Student Financial Services Center/University Collections and Student Loans
Kathi McCoy	Director of Auditing Services
Theo Povondra	Accountant II
Stephen Scalley	GAAP Accountant
David Shannon	Director of Procurement and Contracts
Nicole Sharkey	Accountant II
Abbi Stone	Associate Vice President for Business and Administrative Services
Pat Vercruyssen	Administrative Analyst/Specialist Exempt II
Thurman Watson	Property Accounting Supervisor



SACRAMENTO  
STATE

California State University, Sacramento  
Office of the Chief Financial Officer & Vice President  
6000 J Street • Sacramento Hall 272 • Sacramento, CA 95819-6038  
T (916) 278-6312 • F (916) 278-5783 • www.csus.edu/admbus/



May 29, 2009

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

Subject: Campus Response to Recommendations of FISMA Audit, Report #08-10

Dear Mr. Mandel:

We submit the attached document as our response to the recommendations of the audit. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or require additional information, please contact Kathi McCoy, Director of Auditing Services, at 916 278-7439.

Sincerely,

Stephen G. Garcia  
Vice President for Administration

Attachment

cc: G. Curry  
A. Gonzalez  
J. Heartt  
K. McCoy  
D. Shannon  
A. Stone

**FISMA**  
**CALIFORNIA STATE UNIVERSITY,**  
**SACRAMENTO**

**Audit Report 08-10**

**ACCOUNTS RECEIVABLE**

**DELINQUENT ACCOUNTS**

**Recommendation 1**

We recommend that the campus ensure that delinquent student and third-party accounts receivable are promptly pursued. This might include ceasing any further provision of university services and charging interest on account balances.

**Campus Response**

We concur. By October 31, 2009, the campus will enhance the collection efforts and tracking process. These revisions will include the utilization of new reporting tools to track delinquent student and third party accounts. The campus will track grant unpaid invoices by working more closely with the granting agency to ensure timelier payment. The aging report was updated and is based on due date rather than activity date. Additionally, to monitor delinquent student accounts, the campus will use the newly developed Student Financials Collection Module, and will establish collection procedures that will support the new ICSUAM policy for student receivables.

**COST ALLOCATION PLAN**

**Recommendation 2**

We recommend that the campus obtain signed MOUs from all auxiliary and enterprise organizations for the allocation and recovery of indirect costs.

**Campus Response**

The university plans to model the Chancellor's Office approach of charging for direct and indirect costs, and forego the use of signed MOU's. This method is based on the CFO's authority to approve and implement the cost allocation plan, as stipulated in EO 1000. The university will process the 2008/09 reimbursement due from the three remaining auxiliary and enterprise organizations, for the costs incurred by those entities. This reimbursement process will be completed by July 31, 2009.

## **FIXED ASSETS**

### **PROPERTY INVENTORY**

#### **Recommendation 3**

We recommend that the campus ensure that all department inventories are performed and reconciled to the general ledger every 18 months or at least every three years.

#### **Campus Response**

We concur. As of November 2008, the campus policy was revised to require that physical inventory of property will be completed every 36 months. The inventories will be completed in phases, and the inventories for the entire campus will be completed within the three year time frame. The inventory schedules for each campus department were changed to reflect this approach. Annually, upon receipt of the department's inventory report, the Asset Manager will update the Asset Management system. Accounting Services reconciles the General Ledger to the Asset Management system on a monthly basis.

### **SENSITIVE PROPERTY**

#### **Recommendation 4**

We recommend that the campus ensure that home use permits are completed for off-campus use of all university laptops.

#### **Campus Response**

We concur. As of November 2008, the campus policy was revised to require the use of the Equipment Check-Out Form, which is located on the Procurement Services website. Financial Services informed the campus community of this requirement at the Business Partners Roundtable meeting, held on February 27, 2009.



THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

June 19, 2009

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FROM: Charles B. Reed  
Chancellor


FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 08-10 on *FISMA*,  
California State University, Sacramento

LONG BEACH

LOS ANGELES

In response to your memorandum of June 19, 2009, I accept the response as submitted with the draft final report on *FISMA*, California State University, Sacramento.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

Enclosure

SACRAMENTO

c: Dr. Alexander Gonzalez, President  
Ms. Kathi McCoy, Director, Auditing Services

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS