

FISMA

SAN DIEGO STATE UNIVERSITY

**Audit Report 09-01
July 16, 2009**

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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

Cash Receipts.....	6
Accounts Receivable.....	6

APPENDICES

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

ABBREVIATIONS

CSU	California State University
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
GC	Government Code
SAM	State Administrative Manual
SDSU	San Diego State University
SUAM	State University 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.

San Diego State University (SDSU) 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 SDSU campus from January 26, 2009, through February 27, 2009, and made a study and evaluation of the accounting and administrative control in effect as of February 27, 2009. This report represents our biennial review.

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

In our opinion, SDSU's accounting and administrative control in effect as of February 27, 2009, 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]

Application fee reconciliations for the three academic terms between fall 2007 and summer 2008 were either not prepared or not prepared in a timely manner.

ACCOUNTS RECEIVABLE [6]

Controls over the collection and write-off of student, third-party, and employee accounts receivable needed improvement.

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 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, systems output, or accounting entries are 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 July 1, 2007, to December 31, 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.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Adequate segregation of duties regarding authorization and payment of cash disbursements and appropriate controls over campus vendors.
- ▶ Establishment of trust funds, separate accounting, and adequate agreements.

We have not performed any auditing procedures beyond February 27, 2009. 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

Application fee reconciliations for the three academic terms between fall 2007 and summer 2008 were either not prepared or not prepared in a timely manner.

We found that the fall 2007 reconciliation was prepared and approved in July 2008, and that the fall 2008 reconciliation was not completed at the time of the current Financial Integrity and State Manager's Accountability Act (FISMA) audit.

State University Administrative Manual (SUAM) §3825.01 states that a reconciliation of applications for admission to fees received shall be prepared for each academic year term and maintained on file by each campus. The reconciliations should be completed within one month after the end of the academic term being reconciled.

The university controller stated that the university procedure for the application fee reconciliation did not adequately state the time frame to complete the reconciliation. She added that CSU Mentor, an online resource to assist students in preparing applications for admission, makes it difficult for campuses to get an accurate and timely count of application fees.

Failure to reconcile fees within the appropriate time period increases the risk that errors and irregularities will not be detected.

Recommendation 1

We recommend that the campus reconcile application fees within one month after the end of the academic term being reconciled.

Campus Response

We concur. Procedures have been revised and application fee reconciliations will occur within one month after the end of the academic term.

ACCOUNTS RECEIVABLE

Controls over the collection and write-off of student, third-party, and employee accounts receivable needed improvement.

We found that the campus had not created aging reports to effectively analyze and report outstanding student, third-party, and employee accounts receivable. Instead, the campus tracked and analyzed these accounts using listings that did not categorize the receivables based on the length of time they were outstanding. We used these listings to select our test sample of accounts that had been billed more than 120 days prior to the audit date. The following is a summary of our findings.

Student Accounts Receivable

Delinquent student accounts receivable were not properly pursued for write-off. We reviewed 11 student accounts that included 23 receivables totaling \$48,662 and found that in 21 instances, no payment activity had occurred in the preceding two years. We also noted that the initial billing dates of the 23 items ranged from 1996 to 2006, yet none of these items had been forwarded to management for write-off.

Third-Party Accounts Receivable

Collection efforts for third-party accounts receivable were not adequately performed or documented. We reviewed ten third-party accounts that included 22 receivables totaling \$325,460. We found that:

- ▶ There were no documented collection efforts for six receivables totaling \$172,187. Four of the six receivables (three for Naval Medical Education and one for the County of San Diego) totaled \$168,564 (\$13,748, and \$154,816, respectively). The initial invoices for these receivables dated from April 2001 through September 2007.
- ▶ Twelve receivables totaling \$142,914 involved a vendor that was in a dispute with the campus. We could not locate evidence of management direction for these receivables, which were initially billed between July 2006 and October 2006.
- ▶ Three accounts included four receivables totaling \$10,357 that had not been forwarded to management for further disposition. The receivables were created in 2004 and 2005, and we found no evidence of payment or collection activity involving them for up to five years.
- ▶ Policies and procedures relating to the collection and write-off of third-party receivables were not well documented and/or formalized. As of January 29, 2009, over 65 percent (\$594,347) of the campus' total third-party receivables were over 90 days past due, with the oldest billing dated April 11, 2001.

Employee Accounts Receivable

Collection efforts for employee accounts receivable were not adequately documented. We reviewed 12 employee accounts that included 23 receivables totaling \$14,509. We found that:

- ▶ There was no documented evidence that collection letters had been mailed for any of the employee accounts reviewed.
- ▶ Write-off of outstanding receivables of less than \$1,000 had not been performed in a timely manner. We noted that in five instances, the employees had been terminated, yet the accounts had not been submitted for write-off nor had applications for discharge from accountability been prepared.

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, as well as the utilization of the offset claim procedures for accounts greater than \$10.

State Administrative Manual (SAM) §8776.6 requires that each department develop collection procedures that will ensure prompt follow-up on receivables. Further, the accounting office will send a sequence of three collection letters at 30-day intervals. If the collection letters are unsuccessful, an analysis should be prepared detailing additional collection efforts, which should include contracting with a collection agency.

Executive Order (EO) 616, *Discharge of Accountability*, dated April 19, 1994, states that campuses will be obligated to comply with the collection efforts as outlined in SAM §8776.6, which includes collection procedures that ensure prompt follow-up on receivables. EO 616 also delegates authority to the campus for local adjustments of up to \$1,000 when the campus determines that a receivable is uncollectible or that the amount does not justify the collection costs.

San Diego State University *Accounts Receivable Collection Procedures*, dated February 9, 2008, states that a request for discharge from the payroll manager must be submitted to the university controller with all prior documentation and an explanation of why the accounts receivable is considered uncollectible.

The university controller stated that different parts of the campus have developed their own processes and procedures rather than the university providing a comprehensive process/procedure document, which may have resulted in a fragmented appearance to the policies. She also stated that there has not been a formal process for communicating the results of court actions and other litigation that would have resulted in the timely dismissal of some of the receivables cited.

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 that receivables will not be properly reflected in the campus financial statements.

Recommendation 2

We recommend that the campus:

- a. Develop proper aging schedules for student, third-party, and employee receivables and implement policies and procedures for the use and review of such schedules by responsible accounting personnel, including senior campus management.
- b. Develop formal collection procedures that specify the types of collection efforts to be performed and that emphasize the importance of documenting these efforts.
- c. Develop formal write-off procedures that require an analysis of accounts receivable to determine which receivables are uncollectible. The procedures should require that the campus either write off or request discharge from accountability for those receivables deemed uncollectible.

Campus Response

We concur. The university has consolidated its policies and procedures into a single process which is applicable for student, third-party, and employee accounts receivable. As a result, all receivables are now part of the documented standard processing and review for aging, write-off, and collections. The policies and procedures were developed in accordance with the draft Integrated CSU Administrative Manual (ICSUAM) policy.

- a. A campus-wide summary aging report and aging schedules for auxiliary receivables are compiled monthly. Schedules are provided to the auxiliaries, the university controller, and the associate vice president for financial operations.
- b. The university's formal collection procedures, which specify the types of collection efforts to be performed, are documented in the consolidated policies and procedures.
- c. Formal write-off procedures are included in the university's consolidated policies and procedures.

APPENDIX A: PERSONNEL CONTACTED

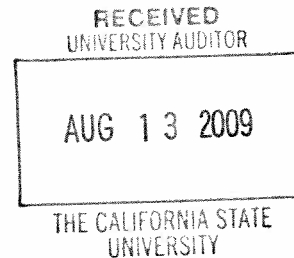
<u>Name</u>	<u>Title</u>
Stephen L. Weber	President
Cathleen Austin	Manager, Accounts Payable
Chris Bronsdon	Director, Financial Reporting
Scott Burns	Associate Vice President, Financial Operations
Valerie Carter	Director, Audit and Tax
Devon Caturay	Assistant Manager, Payroll and Compensation
David Del Rio	Assistant Director, Business Services
Cathy Garcia	Manager, Contract and Procurement Management
Lorretta Leavitt	University Controller
Irma Martinez	Director, Business and Financial Services, Imperial Valley Campus ()
Diana Mazzone	Lead Cashier
Dana McCoy	Manager, Accounting Services
Jeanette Nevandro	Operations Supervisor, College of Extended Studies
Tam Ngo	Accountant I
Mary Ann Patty	Manager, University Cashier's Office
Lawrence Peralez	Director, Business Services
Kimberlee Reilly	Systems Coordinator, Student Financial Services
Sally Roush	Vice President, Business and Financial Affairs
Raul Ruiz	Receiving Clerk
Sue Thygesen	Benefits Services Specialist
Jeff Wal	Accountant II
Lisa Winters	Manager, Compensation and Payroll



San Diego State University
5500 Campanile Drive
San Diego, CA 92182-8000
Tel: 619 594-5201
Fax: 619 594-8894

THE PRESIDENT

August 6, 2009



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

Dear Mr. Mandel:

Attached is San Diego State University's response to Audit Report 09-01, *FISMA*.
Documentation of policy and control changes will follow under separate cover.

Should you have any questions or require additional information, please contact Valerie
Carter, Audit and Tax Director, at 619-594-5901.

Sincerely,

A handwritten signature in black ink that reads "Stephen L. Weber".

Stephen L. Weber
President

SLW/ml

Attachment

c: Sally F. Roush, Vice President for Business and Financial Affairs
Scott Burns, Associate Vice President, Financial Operations
Loretta Leavitt, University Controller
Valerie Carter, Director, Audit and Tax

FISMA**SAN DIEGO STATE UNIVERSITY****Audit Report 09-01****CASH RECEIPTS****Recommendation 1**

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Campus Response

We concur. Procedures have been revised and application fee reconciliations will occur within one month after the end of the academic term.

ACCOUNTS RECEIVABLE**Recommendation 2**

We recommend that the campus:

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- b. Develop formal collection procedures that specify the types of collection efforts to be performed and that emphasize the importance of documenting these efforts.
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- b. The University's formal collection procedures, which specify the types of collection efforts to be performed, are documented in the consolidated policies and procedures.
- c. Formal write-off procedures are included in the University's consolidated policies and procedures.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

September 21, 2009

CHANNEL ISLANDS

CHICO

MEMORANDUM

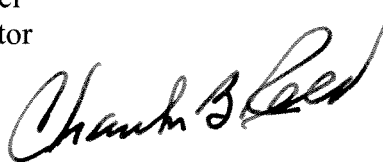
DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor



FULLERTON

SUBJECT: Draft Final Report 09-01 on *FISMA*,
San Diego State University

HUMBOLDT

LONG BEACH

LOS ANGELES

In response to your memorandum of September 21, 2009, I accept the response as submitted with the draft final report on *FISMA*, San Diego State University.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS