FISMA

CALIFORNIA STATE UNIVERSITY, LOS ANGELES

Report Number 95-09
April 18, 1996

CONTENTS

INTRODUCTION

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

APPENDICES

ABBREVIATIONS

AP	**Accounts Payable**
CSU	**California State University**
CSULA	**California State University, Los Angeles**
EO	**Executive Order**
FISMA	**Financial Integrity and State Manager's Accountability Act**
IT	**Information Technology**
PO	**Purchase Order**
SAM	**State Administrative Manual**
SUAM	**State University Administrative Manual**
UAS	**University Auxiliary Services**

PURPOSE

The principal audit objective was to assess the adequacy of controls and systems which assure that:

- **cash receipts are processed in accordance with laws, regulations and management's policy;**
- **receivables are promptly recognized and balances are periodically evaluated;**
- **purchases are made in accordance with laws regulations and management policy;**
- **revolving fund disbursements are authorized and processed in accordance with laws, regulations and management's policy;**
- **cash disbursements are properly authorized and are 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 personnel and payroll are processing records and processing areas are restricted;**

- **purchase and disposition of fixed assets are controlled and recording of assets are made promptly in the subsidiary records;**
- **physical computer controls are in place and functioning;**
- **investments are adequately controlled and securities are safeguarded; and**
- **trust funds are established in accordance with SUAM guidelines.**

SCOPE AND METHODOLOGY

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 which required annualized data, the 1994-95 fiscal year 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 to December 1995. Our primary focus was on internal controls. Specifically, we reviewed and tested:

- **posting of the original budget and major budget revisions;**
- **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 over the establishing of billing for and payment of receivables;**
- **approval of purchases, receiving procedures and reconciliation of expenditures to State Controller's balances;**
- **limitations on the size and types of revolving fund disbursements;**
- **use of petty cash funds, periodic cash counts, and reconciliation of bank accounts;**
- **authorization of personnel/payroll transactions, accumulation of leave credits in compliance with state policies and maintenance of minimum leave balances for participants in the direct deposit program;**
- **posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories;**
- **access restrictions to automated accounting systems and proper documentation of the systems;**
- **procedures for initiating, evaluating, and accounting for investments; and**

- **establishing of trust funds, separate accounting, adequate agreements, and annual budget.**

We have not performed any auditing procedures beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not discussed.

BACKGROUND

In 1983, the California Legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act required that state agencies establish and maintain a system of internal accounting and administrative control. To ensure that the requirements are fully complied with, the head of each agency is required to prepare and submit a report on the adequacy of the system of internal accounting and administrative control following the end of each odd-numbered fiscal year. Prior to 1992, the California Department of Finance had conducted these reviews. However, due to staffing reductions they are no longer conducting such audits. The Office of the University Auditor of the CSU is now responsible for conducting the audits of internal accounting and administrative control within the CSU. This report represents our biennial review.

OPINION

We visited the CSU Los Angeles campus from November 29, 1995 through January 12, 1996 and audited the internal control structure in effect at that time.

In accordance with the Government Code Section 13402, et seq., state agency heads are responsible for establishing and maintaining systems of internal accounting control. The broad objectives of control systems for state agencies are to provide management with reasonable, but not absolute, assurance that:

- **assets are safeguarded from unauthorized use or disposition; and**

- **transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial reports in accordance with the State Administrative Manual.**

Because of inherent limitations in control systems, errors or irregularities may occur and not be detected. In addition, projection of any evaluation of systems to future periods is subject to risk since procedures may become inadequate as a result of changes in conditions, or the degree of compliance with the procedures may deteriorate. (*See Appendix B, Statement of internal Controls.)*

We found that, except for the items noted in the Executive Summary and in the detail of the report, controls were in place and functioning adequately and compliance with related CSU and campus policies and procedures was satisfactory.

EXECUTIVE SUMMARY

The purpose of this section is to provide 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]

The library circulation, health center, admissions and outreach departments did not maintain written records indicating who had access to the safekeeping facilities and when changes in access had occurred. Internal control in the safeguarding of assets is increased when documentation of access is regularly maintained.

ACCOUNTS RECEIVABLE

LIBRARY COLLECTION PROCEDURES [6]

Reassigning the collection of outstanding library receivables older than ninety days to the campus accounting office would assure that proper collection/write-off procedures are followed.

DELINQUENT ACCOUNTS [7]

The University Auxiliary Services (UAS) and the Luckman Fine Arts Center did not reimburse the campus for services rendered in a timely manner Collecting accounts receivable timely increases working capital and limits the potential loss of revenue to the state.

STUDENT RECEIVABLES [8]

Collection procedures for student receivables did not include the local adjustment and discharge from accountability methods. Writing off long outstanding student accounts receivable, which have a low probability of collection, more accurately reflects current and future assets.

PURCHASING [8]

Incorrect subaccount codes were used in nine of the fourteen (64%) asset acquisitions in our sample review. Verifying the allocation and accuracy of subaccount codes submitted on purchase

requisitions facilitates an accurate property reconciliation and increases the level of confidence that accounting records are accurately stated.

CASH DISBURSEMENTS [9]

Non-compatible cash disbursement duties were being performed by one employee. Separating duties in the cash disbursement function decreases the risk of misuse of state funds.

FIXED ASSETS

RECONCILIATIONS [10]

The monthly property reconciliations with changes to the general ledger accounts were not prepared timely. The timely completion of property reconciliations minimizes the risk of errors and irregularities going undetected for extended periods of time.

REPORTS OF LOST OR STOLEN PROPERTY [10]

Support Services was not notified by University Police of all lost or stolen property that should have been removed from the property inventory. Notifying Support Services of all campus property reported as lost or stolen will assist the campus in accurately stating inventory and property accounts.

FISCAL INFORMATION TECHNOLOGY (IT) [11]

The campus had not developed an information technology (IT) disaster recovery plan. To assure that business operations can continue or return to normal operations after a disruptive event such as an earthquake, power outage, or computer virus, the campus should develop a disaster recovery plan.

SATELLITE CASHIERING

The library circulation, health center, admissions and outreach departments did not maintain written records indicating who had access to the safekeeping facilities and when changes in access had occurred.

SAM Section 8024 requires that a record be kept showing date the combination was last changed and names of persons knowing the present combination.

The administrators in charge at these locations indicated they were unaware of the requirement for a written record to be kept of combination change dates and the names of those having knowledge of the current safe combination.

Internal control in the safeguarding of assets is reduced when the safe combination is known by employees who leave the employ of the campus and/or by employees who no longer have a need to know the safe combination in the performance of their duties.

Recommendation 1

We recommend that the campus retain written records of those employees who have access to the safekeeping facilities and the dates the combinations were last changed.

Campus Response

We concur. Procedures are being developed whereby responsibility for ensuring that a master listing of all personnel who have safe access will be maintained and validated at least annually by Financial Management and Services (FM&S) and Cashier's Office personnel.

ACCOUNTS RECEIVABLE

LIBRARY COLLECTION PROCEDURES

The library did not maintain an aging schedule to determine the length of time accounts had been outstanding. The staff did indicate that the total amount of receivables at the time of our review was $88,719 with some of the accounts as much as five years old.

SAM Section 8776.6 established procedures for the collection of outstanding accounts receivable. If all reasonable collection procedures do not result in payment, the campus may request, from the State Board of Control, relief from accountability of uncollectible amounts.

Executive Order 616 delegated authority to the campuses for local adjustment up to $1,000.

Currently there is no procedure for turning over library receivables to the campus accounting office.

Failure to transfer receivables to the campus accounting office reduces the university's ability to pursue collection of outstanding accounts in a timely manner.

Recommendation 2

We recommend that the campus reassign the collection of outstanding library receivables older than ninety days to the campus accounting office to assure that proper collection/write-off procedures are followed.

Campus Response

We concur. The University's Financial Management and Services (FM&S) office is currently working with Library management in order to establish procedures to transfer future accounts receivable that are older than 90 days.

DELINQUENT ACCOUNTS

University Auxiliary Services (UAS) and the Luckman Fine Arts Center did not reimburse the campus for services rendered in a timely manner. The campus accounting records, as of January 1996, indicated outstanding receivables over one year old owing from the UAS and the Luckman Fine Arts Center in the amount of $40,756. The Luckman Fine Arts Center had outstanding receivables ten months old in the amount of $18,271.

SAM Section 8776.2 defines valid accounts receivable as a receivable that is due and payable and for which there is no apparent disagreement over the validity of the claim or the amount at the time it was established. This section allows agencies to adjust receivables to reflect their correct amounts without the necessity of going through the State Board of Control.

SAM Section 8776.6 provides specific criteria for collecting outstanding amounts owed the university including the sending of three follow up letters at thirty day intervals after the initial billing and tax offset.

Discussions with the campus accounting staff indicated that despite continued follow-up collection efforts from the accounts receivable collections unit and stronger action taken by Financial Services management they have been unable to persuade UAS to pay in a timely manner.

Not collecting delinquent accounts receivable in timely manner reduces the amount of working capital available to the campus and represents a potential loss of interest income.

Recommendation 3

We recommend that the campus implement stronger collection measures to assure timely reimbursements from University Auxiliary Services and the Luckman Fine Arts Center for amounts properly owed to the state for services rendered.

Campus Response

We concur. Procedures are now in place whereby University Auxiliary Services and Luckman Fine Arts Center management meet with FM&S management at least monthly in order to process reimbursements to the university on a more timely basis.

STUDENT RECEIVABLES

Collection procedures for student receivables did not include the local adjustment and discharge from accountability methods. The campus accounting records indicated that—as of 1/6/96—there were outstanding student accounts receivable over two years old in the amount of $251,700.

SAM Section 8776.6 provides for requests to be made to the State Board of Control to seek relief from accountability for uncollectible amounts if all reasonable collection procedures do not result in payment.
EO 616 also delegated authority for local adjustment to the campuses for amounts up to $1,000.

The director of financial services indicated that the campus believed these long outstanding accounts would be eventually cleared through proper follow-up procedures and that it would be premature to write them off at this time.

Long outstanding accounts receivables have a very low probability of collection and the cost of collection along with increased workload may exceed the amount owed. In addition, the campus is misstating its current and/or future assets and possible cash flow.

Recommendation 4

We recommend that the campus take stronger action to write off long outstanding student accounts receivable.

Campus Response

We concur. FM&S management and staff are currently reviewing all outstanding student accounts receivable to determine collectibility. Write-off receivables whose collection has been diligently sought but deemed uncollectible will be performed.

PURCHASING

Incorrect subaccount codes were used in nine of the fourteen (64%) asset acquisitions over $500 we reviewed. We noted six instances in which expense items were recorded in capital accounts and two instances in which equipment acquisitions were recorded in expense accounts. In the final instance, a purchase order (PO) included equipment as well as expense items. However, the total amount of the PO was recorded in a capital subcode.

SAM Section 8602 requires the recording of assets in the accounting records as property when an asset has a unit acquisition cost of at least $500.

We were informed by the director, Procurement, Contracts & Support Services, that although the procurement department is mindful of miscoding, requesting departments have ultimate say as to how a purchase is subcoded.

We also learned that the accounts payable (AP) supervisor attempts to discover and correct misclassified acquisitions during the property reconciliation process. However, we noted that the process is burdensome and does not assure that all property will be accurately classified in the accounting/inventory records.

Not correcting erroneous subaccount codes at the requisition stage exacerbates the property reconciliation process and permits the recording of capital equipment in expense accounts and conversely permits the recording of expense items in capital accounts. Both misclassifications misstate the accounting and property records.

Recommendation 5

We recommend that the campus assure proper recording of account/subaccount codes in the accounting system.

Campus Response

We concur. The implementation of the new PeopleSoft client/server application system will fully address the concerns raised by the auditor.

CASH DISBURSEMENTS

Non-compatible cash disbursement duties were being performed by one employee. The general accounting supervisor authorized revolving fund and trust fund expenditures and also reconciled the campus bank account.

SAM Section 8080 does not permit a single individual to authorize disbursements and reconcile bank accounts.

The individuals responsible for preparing revolving fund and trust account expenditures reported directly to the general accounting supervisor. As such, the general accounting supervisor had final approval over their work product.

By compromising the segregation of duties related to check issuance, the campus increases the risk of misuse of state funds.

Recommendation 6

We recommend that the campus separate duties in the cash disbursement function to assure compliance with internal control.

Campus Response

We concur. A reorganization of FM&S will take place shortly after the beginning of fiscal year 1996-97, at which time the duties associated with authorizing disbursements from the revolving and trust funds, and performing bank account reconciliations, will be adequately separated.

FIXED ASSETS

RECONCILIATIONS

The monthly property reconciliations with changes to the general ledger accounts were not prepared in a timely manner. Two of the three reconciliations we reviewed were prepared two months late. Further, at the time of our review (January 10, 1996), the September, October, and November reconciliations were past due.

SAM Section 7969 requires a monthly (or quarterly if the volume is low) reconciliation of property inventory with changes in the general ledger accounts.

The AP supervisor informed us that Support Services has been delayed in providing information for the reconciliation due to the impact on resources created by outside auditors. The research technician, Support Services, cited delays from AP in not forwarding paid POs to them.

Failure to complete property reconciliations in a timely manner increases the risk of errors and irregularities going undetected for extended periods of time.

Recommendation 7

We recommend that the campus reconcile property records to the general ledger property accounts on a monthly basis.

Campus Response

We concur. However, implementation of this recommendation has been delayed due to the impact on staff who are responsible for implementing the specifics contained in Management Memo 95-22, *Asset Capitalization Criteria*, which required the removal through journal entries of all tangible property from accounting records that had a unit acquisition cost of less than $5,000. According to FM&S personnel, monthly property reconciliations for fiscal year 1995-96 are current effective June 30, 1996.

REPORTS OF LOST OR STOLEN PROPERTY

Support Services (Property Department) was not notified by the University Police of stolen property that should have been removed from the property inventory.

We selected a sample of ten campus property theft reports valued at $32,154 from the University Police files. We found no instances where Support Services was provided with a copy of the report or with information that would have enabled them to delete the items from the property inventory.

SAM Section 8643, requires the preparation of a Property Survey Report and the adjustment of accounting records whenever property is lost, stolen or destroyed.

We were informed by the director, Procurement, Contracts & Support Services and the manager, Support Services, that University Police would not forward copies of the police reports because they deemed these documents to be confidential.

Further, the manager, Support Services informed us that requests have been made to university police to provide Support Services with a listing of stolen items or for police reports with confidential information blacked out.

Failure to notify support services of all lost or stolen property allows for inventory and property accounts to be overstated and prevents the campus from making an accurate determination of the scope and magnitude of property shrinkage.

Recommendation 8

We recommend that the university police timely notify support services of all campus property reported as lost or stolen.

Campus response

We concur. Public Safety is in the process of installing an automated records management system (ARMS) that will be able to provide Property Management with a crime report number, amount of loss, and other pertinent data related to the purported, missing property; ARMS is scheduled to be fully operational in October 1996. In the interim, Public Safety will manually prepare reports listing data regarding the missing property and forward it to Property Management as needed.

FISCAL INFORMATION TECHNOLOGY (IT)

The campus had not developed an information technology (IT) disaster recovery plan.

Sam section 4843.1 requires each state agency to establish and maintain both an operational recovery plan to protect its information assets in the event of a disaster or serious disruption to its operations, and the agency's plans for resuming operations following a disaster affecting those applications.

The computer center staff believed that disaster recovery had been adequately addressed by the campus through the proper back-up and local and off-site storage of the critical systems information.

However, the campus could not assure that business operations could continue or return to normal operations after a disruptive event such as an earthquake, power outage, or computer virus.

Recommendation 9

We recommend that the campus develop a written disaster recovery plan.

Campus response

We concur. The University's Information Resource Management is enhancing its current plan by incorporating additional disaster recovery plan attributes suggested by the auditor.

APPENDIX A:
PERSONNEL CONTACTED

Name	Title
Jackie Avery	Executive Director Financial Management & Services
Cynthia Burks	General Accounting Supervisor
Lucy Burgess	Data Control Supervisor
Mark Canevari	Internal Auditor
Linda Chow	Accounts Payable Supervisor
Lillian Colores	Director, Procurement, Contracts & Support Services
Mike Cross	Director, Financial Services
Joanne Disney	Accounts Receivable Technician
Doug Echaiz	Manager, Computing Services
Annie Ekshian	Research Technician
Sharron Erdhaus	Administrator, Student Health Center
Ellie Green	Accounting Technician
Silvia Gonzalez	Manager, Human Resources
Paul Happach	Property Clerk
Ann Harris	Supervisor, Accounts Receivable
Patricia Higuchi	Assistant Director, Financial Services
Thomas Huber	Manager, Data Base Administration and Technology Development
Tito Ibarrola	Manager, Cash and Assets
Elizabeth Kent	Revolving Fund Supervisor
Jeanne Licausi	Manager, Human Resources
Jessie Lum	Manager, Business Systems
Alene Miyahara	Office Manager
Joseph Mitchell	Manager, Support Services
Connie Mungarro	Supervisor, Admissions and Outreach Services
Carol Ohara	Communication & Records Supervisor
Diane Paramo	Operations Supervisor, Cashiers' Office
Peter Quan	Associate Vice President, Information Resources Management
Lorraine Rodriguez	Purchasing Agent
Lorre Stubbs	Manager, Budget & Fiscal Management
Paula Tran	Accounting Technician
Joanne Tsuyuki	Financial Services Officer, Library Administration

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the state of California, the CSU board of trustees, and the office of the chancellor are evaluated by the university auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls which 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 record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

C. INTERNAL CONTROL OBJECTIVES

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.